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TEXTS FORWARDED BY THE SUBSIDIARY BODIES TO THE CONFERENCE OF THE PARTIES AT THE FIRST PART OF ITS SIXTH SESSION

Note by the Secretariat

1. This information document contains the negotiating texts forwarded by the subsidiary bodies to the Conference of the Parties at the first part of its sixth session under agenda item 3.*

2. The revised negotiating texts prepared by the President of the Conference are contained in the report of the Conference (FCCC/CP/2000/5/Add.3 (Volumes 1-5)).

* FCCC/SBSTA/2000/CRP.11 and FCCC/SB/2000/CRP.15/Rev.2 are contained in part three of the report of the Conference (FCCC/CP/2000/5/Add.3 (Volume IV)).

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I. WORK PROGRAMME ON MECHANISMS (DECISIONS 7/CP.4 AND 14/CP.5)

(Agenda item 7(c))

A. ARTICLE 6 OF THE KYOTO PROTOCOL*

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* FCCC/SB/2000/CRP.19

(Note: The text of this decision is from document FCCC/SB/2000/10/Add.1.)

[I. [Draft decision [A/CP.6]: Guidelines for the implementation of Article 6 of the Kyoto Protocol

The Conference of the Parties,

Recalling Article 6 of the Kyoto Protocol,

Recalling its decision 1/CP.3, in particular paragraph 5 (c),

Recalling also its decision 7/CP.4 on a work programme on mechanisms to be undertaken with priority given to the clean development mechanism, and with a view to taking decisions on all the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol at its sixth session, including, where appropriate, recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session on, *inter alia*, guidelines concerning provisions under Article 6 of the Kyoto Protocol,

Recalling also its decisions 8/CP.4 and 14/CP.5,

1. *Urges* the Parties included in Annex I to the Convention to facilitate the participation in Article 6 projects of Parties included in Annex I to the Convention that are undergoing the process of transition to a market economy;

2. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its first session, adopt the following decision:

Decision -/[CMP.1]

Guidelines for the implementation of Article 6 of the Kyoto Protocol

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Taking into account [all of the relevant] provisions contained in [Articles 4 and 12 of the Convention] and Articles [3 and 6][2, 3, 4, 5, 6, 7, 11 and 18] of the Kyoto Protocol,

Bearing in mind that, in accordance with Article 6, [any Party to the Kyoto Protocol included in Annex I to the Convention may participate in Article 6 projects for the purpose of meeting its commitments under Article 3 and that any] acquisition[s] of emission reduction units shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments under Article 3 [and reflecting provisions contained in appendix X to the annex to this decision,]

[*Also bearing in mind* Articles 3 and 6 of the Kyoto Protocol, in accordance with which any emission reduction units which a Party to the Kyoto Protocol included in Annex I to the

Convention transfers to another such Party shall be subtracted from the assigned amount for the transferring Party and any emission reduction units which a Party to the Kyoto Protocol included in Annex I to the Convention acquires from another such Party shall be added to the assigned amount for the acquiring Party, keeping in view that any such transfers and acquisitions are only for the purpose of contributing to the achievement of compliance with the quantified emission limitation and reduction commitments in Article 3 without altering the assigned amount of any Party pursuant to its quantified emission limitation and reduction commitments inscribed in Annex B to the Kyoto Protocol].

[*Affirming* that, in their actions to achieve the purpose of Article 6, Parties shall be guided by Articles 2 and 3 of the Convention, and, *inter alia*

[Equity relates to equitable per capita emission entitlements for developing country Parties, keeping in view that per capita emissions in developing countries are still relatively low and that the share of global emissions originating in developing countries will grow to meet their social and development needs, taking fully into account that economic and social development and poverty eradication are the first and overriding priorities of such Parties, while affirming that developed country Parties shall continue to limit and reduce their emissions with the aim of attaining lower levels of emissions through domestic policies and measures with a view to reducing per capita inequities in emissions between developed and developing country Parties.]

[*Recognizing* that the Kyoto Protocol has not created or bestowed on Parties included in Annex I to the Convention and in Annex B to the Protocol any right, title or entitlement to emissions of any kind in the pursuance of Articles 6, 12 and 17 of the Kyoto Protocol and further recognizing that emissions trading under Article 17 is only for the accounting of transfers and acquisitions of parts of assigned amounts for the purpose of fulfilling commitments under Article 3.]

[Special situation of developing countries that are particularly vulnerable to the adverse effects of climate change and impacts of mitigation activities. Article 6 projects should be implemented in such a way as to minimize adverse social, environmental, and economic impacts on developing country Parties, in particular those identified in Article 4, paragraphs 8 and 9 of the Convention.]

[Fungibility/non-fungibility: Parties [may][shall][not] exchange emission reduction units[, certified emission reductions] and [assigned amount units][parts of assigned amount] [in accordance with rules and procedures established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol which are to ensure their effective environmental equivalence.]]

Having considered decision [A/CP.6],

1. *Decides* to adopt the guidelines for the implementation of Article 6 contained in the annex to this decision;

2. [*Decides* that the share of proceeds shall be applied to Article 6 projects and shall be collected and allocated in accordance with provisions contained in appendix C [to cover administrative expenses and [no less than 100-z per cent] to the adaptation fund[1]].

3. *Urges* the Parties included in Annex I to the Convention [concerned] to facilitate the participation in Article 6 projects of Parties included in Annex I to the Convention that are undergoing the process of transition to a market economy;

4. *Decides* that the [distribution][sharing][division]of the emission reduction units [resulting from an Article 6 project] will be determined by the participating Parties [and any legal entities involved];

5. *Decides* to review and, where appropriate, revise the guidelines contained in the annex. A review of the annex, based on recommendations by the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation[2], shall be undertaken no later than one year after the completion of the [first] additional period for fulfilling commitments[3], taking into account, inter alia, the experience of the Parties. Revisions shall not affect Article 6 projects already registered. [Any revisions to this decision shall be made by consensus of the Parties];

6. *Requests* [the secretariat of the Convention] to perform functions assigned to the secretariat [as contained] in this decision and its annex[4]]

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[1] [An adaptation fund shall be established to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change, in particular the least developed countries and small island developing States amongst them, and/or to the impact of the implementation of response measures, under Articles 6 and 17, to meet the costs of adaptation.]

[2] In accordance with provisions contained in Article 15 of the Kyoto Protocol.

[3] As defined in the draft decision on the establishment of procedures and mechanisms on compliance.

[4] The resource implications of this operative paragraph will need to be specified.

Annex

[GUIDELINES] FOR THE IMPLEMENTATION OF ARTICLE 6 OF THE KYOTO PROTOCOL

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

[Definitions

For the purpose of this annex:

(a) "Protocol" means the Kyoto Protocol to the United Nations Framework Convention on Climate Change as adopted on 11 December 1997;

(b) "Party" means, unless the context otherwise indicates, a Party to this Protocol;

(c) "Party included in Annex I" means a Party included in Annex I to the Convention, as may be amended, or a Party which has made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol;

(d) "Party not included in Annex I" means a Party not included in Annex I to the Convention, as may be amended, and which has not made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol;

(e) "Article" means an article of the Protocol, unless otherwise indicated;

(f) ["Assigned amount units" or "AAUs"] ["Parts of assigned amount" or "PAAs] are [serialized parts of the assigned amount of a Party included in Annex B] [units calculated pursuant to Article 3, paragraphs [3, 4,] 7 and 8];

(g) "Emissions reduction units" or "ERUs" are units [issued] [transferred] pursuant to Article 6 and requirements thereunder;

(h) "Certified emissions reductions" or "CERs" are units issued pursuant to Article 12 and requirements thereunder;

(i) [AAUs][PAAs], ERUs and CERs are units each equal to one tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;

(j) ["Assigned amount" includes [AAUs] [PAAs], CERs and ERUs.]

(k) ["Stakeholders" means the public, including individuals, groups or communities affected by or likely to be affected by, or having an interest in the project.]]

A. Role of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

Option A:

(Note: There is no need for this section.)

Option B:

1. [The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol shall exercise authority over and provide guidance regarding the implementation of Article 6 [by establishing an Article 6 supervisory committee] [by designating independent entities and for this purpose appointing an accreditation body in accordance with the standards and procedures set out in appendix A].]

Option C:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

B. [Executive board [of the clean development mechanism]]

Option A:

(Note: There is no need for this section.)

Option B:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

C. [Accreditation body] [Article 6 supervisory committee]

Option A:

(Note: There is no need for this section.)

Option B:

2. The Article 6 supervisory committee shall be responsible for:

(a) The accreditation of independent entities in accordance with accreditation requirements and procedures contained in Appendix A;

(b) The review procedure set out in paragraph 28.

Option C:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

D. Accredited independent entities

Option A:

(Note: There is no need for this section.)

Option B:

3. Accredited independent entities shall be responsible for carrying out functions referred to in section J of this annex as well as in other relevant decisions of the COP/MOP.

Option C:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

E. Requirements for eligibility of Parties included in Annex I

(Note: This section may have linkages with decision -/CP.6 establishing procedures and mechanisms on compliance.)

Option 1: para. 4

4. A Party included in Annex I may [transfer and] acquire emission reduction units under the provisions of Article 6 if the Compliance Committee has decided that the Party has demonstrated that it has met the eligibility requirements in paragraph 7 (g) [(h)] [(i)] [(j)] [(k)] [(l)] below.

Option 2: paras. 5 and 6

5. A Party included in Annex I may:

(a) Acquire emission reduction units under Article 6 after [XX[5]] months have elapsed since the submission of a report to the secretariat documenting that it meets the requirements in subparagraphs (b) through (e) [and (g) through [(i)][(l)]] of paragraph 7 , unless the Compliance Committee has found that it has not met one or more of such requirements;

(b) Acquire emission reduction units under Article 6 at an earlier date if the enforcement branch of the Compliance Committee has notified the secretariat that it is not proceeding with any question of implementation relating to the requirements in subparagraphs (b) through (e) [and (g) through [(i)][(l)]] of paragraph 7;

(c) A Party may continue to acquire, unless and until the Compliance Committee has found that it has not met one or more of the requirements in subparagraphs (b) through (f) [and (g) through [(i)][(l)]] of paragraph 7. If the Compliance Committee has found that a Party does not meet one or more of such requirements, the Party may acquire only if and when the Compliance Committee finds that the Party meets such requirements and therefore reinstates its eligibility to acquire.

6. Pursuant to Article 6.4, if a question of implementation identified by an Article 8 expert review team about the implementation by a Party included in Annex I of the requirements in paragraph 7, subparagraphs (b) through (f) [and (h)] [and [(i)]] is pursued by the Compliance Committee, during the time between the Compliance Committee's identification of the compliance question and the resolution of the issue of compliance, the Party may continue to acquire ERUs, provided that any such units may not be used by the Party to meet its commitments under Article 3.1 until the issue of compliance is resolved.

7. In order to meet the eligibility requirements referred to in paragraph [4] [5], a Party shall:

Option 1: ***This option relates to sub-para (a)***

(a) Be in compliance with its commitments under Articles [3,]5 and 7 of the Kyoto Protocol and the requirements set out in the guidelines decided thereunder, including the submission of the last available annual greenhouse gas inventory and greenhouse gas inventory report and the provisions on registries as defined under Article 7.4;

Option 2: ***This option relates to sub-paras (b) through (f)***

(b) Have in place, by the time a report is submitted pursuant to paragraph 5(a) and thereafter, a national system for the estimation of anthropogenic emissions by sources and removals by sinks of all greenhouse gases not controlled by the Montreal Protocol, in accordance with Article 5.1 and the requirements in the guidelines decided thereunder;

(c) Have in place, by the time a report is submitted pursuant to paragraph 5(a) and thereafter, a computerized national registry to account for and track [all changes in its assigned amount] [[ERUs, CERs and [AAUs] [PAAs] transferred or acquired] under the provisions in

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[5] A specified time period sufficient to allow the Article 8 expert review teams and the enforcement branch of the Compliance Committee a reasonable opportunity to identify and rule upon any problems.

Article 3, paragraphs 10, 11 and 12], in accordance with Article 7.4 and the requirements in the guidelines decided thereunder;

(d) Have established, by the time a report is submitted pursuant to paragraph 5(a), its initial assigned amount, in accordance with Article 7.4 and the requirements in the guidelines decided thereunder;

(e) Have submitted, in the report described in paragraph 5(a), one annual inventory for the relevant recent year, [of anthropogenic emissions by sources [and removals by sinks] of greenhouse gases not controlled by the Montreal Protocol] in accordance with the provisions of Articles 5.2 and 7.1 and the requirements in the guidelines decided thereunder [pertaining to Annex A gases and sources], other than those relating to the deadline for the first submission;

(f) Have subsequently submitted for each year following the submission of the report described in paragraph 5(a), annual reports [information on its assigned amount], in accordance with Article 7.1 and the requirements in the guidelines decided thereunder, and annual inventories, in accordance with Articles 5.2 and 7.1 and the requirements in the guidelines decided thereunder [pertaining to Annex A gases and sources];

Note: The following subparagraphs (g) through (l) could form part of option 1 or option 2.

(g) [Have ratified the Protocol];

(h) [Be bound by the procedures and mechanisms on compliance adopted by the COP/MOP;]

(i) [Have submitted the last required [all] periodic national communication[s] in accordance with Article 7.2 and in the guidelines decided thereunder.]

(j) [Have not been excluded from participation in the CDM [according to its procedures and mechanisms] [, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17] [and in accordance with relevant provisions under the Protocol];]

(k) [Have submitted the last required information on net changes in greenhouse gas emissions by sources and removals by sinks resulting from direct human induced activities in conformity with the requirements under Article 3.3 and 3.4, in accordance with the relevant decisions by the COP and the COP/MOP; and]

(l) [Have achieved sufficient emission reductions through domestic [action] [policies and measures][in accordance with appendix X].

8. A Party [included in Annex I] [that authorizes][may authorize] legal entities to participate, [in Article 6 projects] under its responsibility, in actions leading to the generation, transfer or acquisition under Article 6 [paragraph 3] of emission reduction units [shall remain responsible for the fulfilment of its obligations under the Protocol and shall ensure that such participation is consistent with this annex].

9. A Party included in Annex I involved in one or more projects under Article 6 [shall][should] submit to the secretariat a report identifying the Party's focal point of contact for the purpose of project approval pursuant to Article 6, paragraph 1(a).

F. [Scope of projects

10. Projects under Article 6 must provide a reduction in anthropogenic emissions of greenhouse gases by sources listed in Annex A to the Protocol, and/or an enhancement of anthropogenic removals by sinks, that is additional to any that would otherwise occur. [Enhancements of anthropogenic removals by sinks cover activities included in Article 3, paragraph 3, and any additional activities under Article 3, paragraph 4.] [Only anthropogenic emissions reductions of greenhouse gases by sources [or anthropogenic enhancement of removals by sinks] during the commitment period can result in generation of ERUs.]

11. Option 1: [A project under the pilot phase of activities implemented jointly [, which commenced after [1 January 2000][11 December 1997]]shall be eligible[, without retroactivity,] to be pursued as a project under Article 6 if it meets the criteria established in these guidelines, and if the Parties involved in the project agree that it should be considered as an Article 6 project.]

Option 2: [A project activity may be eligible for registration as an Article 6 project activity if the resultant reductions in anthropogenic emissions by sources [and/or enhancements of anthropogenic removals by sinks] commenced after [1 January 2000][11 December 1997] [or the date of the host Party's ratification of the Protocol, whichever is later,] or was reported as an activity implemented jointly under the pilot phase if it meets requirements of these modalities and procedures. [If a project activity was reported as an activity implemented jointly under the pilot phase and is registered as an Article 6 project activity the anthropogenic emission reductions by sources [and/or enhanced anthropogenic removals by sinks] from 1 January 2000 will be eligible for retrospective verification and certification].]

12. [Article 6 project types shall be eligible if they fall in one of the following categories:

(a) Renewable energy: solar energy, wind energy, sustainable biomass, geothermal heat and power, small-scale hydropower, wave and tidal power, ambient heat, ocean thermal energy conversion, activities to promote anaerobic respiration, and energy recovery from biogas, including landfill gas;

(b) Energy efficiency: advanced technologies for combined heat and power installations and gas-fired power plants; [significant] improvements in existing energy production; advanced technologies for, and/or [significant] improvements in, industrial processes, buildings, energy transmission, transportation and distribution; more efficient and less polluting modes of mass and public transport (passenger and goods) and improvement or substitution of existing vehicles, and existing fuel sources;

(c) Demand-side management: improvements in residential, commercial, transport and industrial energy consumption.]

G. Validation

Option A:

(Note: There is no need for this section.)

Option *B*:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

H. Registration

Option A:

(Note: There is no need for this section.)

Option *B*:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

I. Monitoring

Option A:

(Note: There is no need for this section.)

Option B:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

J. Verification

Option A:

13. [A Party included in Annex I operating under Article 4 [may] [may not] [acquire] [transfer] [use] ERUs resulting from Article 6 projects [and use them] [to contribute to compliance with its Article 3 commitments] if another Party operating under the same Article 4 agreement, or a regional economic integration organization to which the Party belongs and which is itself a Party to the Protocol, is found not to be in compliance with its obligations under Articles 5 and 7.]

14. [A Party included in Annex I hosting a project under Article 6 [shall][should] submit to the [secretariat] a report containing: any national guidelines and procedures for obtaining such project approval, for monitoring and verifying reductions in anthropogenic emissions by sources [or enhancements of anthropogenic removals by sinks], for comments [by Parties and] stakeholders, and for transferring [or acquiring] ERUs. [Such a Party [shall] [should] also submit periodic information in accordance with appendix B.]]

15. A host Party included in Annex I may transfer ERUs associated with reductions in anthropogenic emissions by sources or enhancements of anthropogenic removals by sinks that have been verified as additional to any that would otherwise occur, in accordance with the provisions of Article 6.1(b), through one of the procedures set forth in paragraph 17.

16. Information on the project associated with each ERU transferred shall be made publicly available by the host Party, through the secretariat, on the basis of the uniform reporting format as set forth in appendix B.

17. [Reductions in anthropogenic emissions by sources or enhanced anthropogenic removals by sinks for Article 6 projects shall be verified either:

(a) By the Parties involved, if the host Party included in Annex I [at the time of verification] is [eligible][qualify] under paragraph 18; or

(b) Through the verification procedure as provided for under paragraphs 21 through 32.]

18. [A Party included in Annex I hosting a project under Article 6 [may transfer ERUs, according to paragraph 15][shall be qualified for the purpose of paragraph 17 (a)], if the Party has submitted a report to the secretariat documenting that it meets the [requirements][conditions] in paragraph 7 subparagraphs (b) through (e) [and (g) through [(i)][(l)] and (h).and if:

(Note: Clarification is required as to whether the report referred to in this paragraph is additional to the report requested for the establishment of the initial[6] assigned amount as defined in section III (modalities for accounting for assigned amount under Article 7.4) of the draft guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol (Annex II of documents FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13).)

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[6] *The word "initial" in documents FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13 is bracketed.*

(a) [XX] months[7] have elapsed since the submission of such report, unless the Compliance Committee has found that it has not met one or more of such requirements; or

(b) At an earlier date if the enforcement branch of the Compliance Committee has notified the secretariat that it is not proceeding[8] with any question of implementation relating to the requirements in paragraph 7 subparagraphs (b) through (e) [and (g) through [(i)][(l)] and (h).]

19. [Such Party [will remain qualified] [may transfer ERUs according to [paragraph 15]] unless and until the Compliance Committee has found that it has not met one or more of the [requirements][conditions in paragraph 7 subparagraphs (b) through (e) [and (g) through [(i)][(l)] and (h). If the Compliance Committee has found that a Party does not meet one or more such [requirements][conditions], the Party shall become qualified again only if and when the Compliance Committee [finds that the Party meets such conditions and therefore reinstates its qualification][has found that it has met those requirements].]

20. [Any provisions relating to liability provisions under Article 17 shall apply *mutatis mutandis* to acquisitions of ERUs if verification was carried out in accordance with provisions contained in paragraph 17, subparagraph (a).[9]]

21. Option 1: Verification under paragraph 17, subparagraph (b) is the process of evaluation of a project by an independent entity accredited pursuant to appendix A against the requirements of Article 6 and these guidelines.

Option 2: For the purposes of verification of a project under paragraph 17, subparagraph (b), the [secretariat] shall constitute one or more verification teams from a roster of experts nominated by Parties. Members of each verification team shall have the necessary expertise to carry out the functions specified in these guidelines. The [secretariat] shall assign a verification team to a project at the request of [the host Party] [the Parties involved].

22. Project participants shall submit to [an accredited independent entity][the verification team] a project design document [as described in appendix B] that contains all information needed for the determination of whether the project has been approved by the Parties involved, and has an appropriate baseline, monitoring plan and crediting lifetime, in accordance with the criteria set forth in appendix B.

23. The [independent entity][verification team] shall make the project design document publicly available through the secretariat, subject to confidentiality provisions set out in paragraph 31.

24. The [independent entity][verification team] shall receive comments from Parties and stakeholders and UNFCCC accredited observers on the project design document and any supporting information for 60 days from the date the project design document is made publicly available.

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[7] A specified time period sufficient to allow the Article 8 expert review teams and the Compliance Committee a reasonable opportunity to identify and rule upon any problems.

[8] This refers to an enforcement proceeding, rather than a facilitative process.

[9] Pending the result on liability options under Article 17.

25. The [independent entity] [verification team] shall determine whether the project has an appropriate baseline, monitoring plan and crediting lifetime in accordance with the criteria set out in appendix B. The [independent entity][verification team] shall make its determination publicly available through the secretariat, together with an explanation of its reasons, [addressing any significant issues raised][including a summary of comments by stakeholders and a report of how due account was taken of these]. A determination of the appropriate baseline under this paragraph shall remain valid for the crediting lifetime of the project.

26. For the purposes of verifying reductions in anthropogenic emissions by sources [or enhancements of anthropogenic removals by sinks] that have been achieved, project participants shall submit information to the [independent entity][verification team], according to the reporting format in appendix B, to demonstrate that such reductions [or removals] were monitored and calculated in accordance with the appropriate baseline, monitoring plan, and crediting lifetime.

27. The [independent entity][verification team] shall determine whether any reported reductions in anthropogenic emissions by sources [or enhancements of anthropogenic removals by sinks] were monitored and calculated in accordance with the appropriate baseline, monitoring plan and crediting lifetime, and if so, the amount of such reductions [or removals] that have been achieved, stated in terms of tonnes of carbon dioxide equivalent. The [independent entity][verification team] shall make its determination publicly available through the [secretariat], together with an explanation of its reasons.

28. [A verification determination regarding a project design document [or any reported reductions in anthropogenic emissions by sources [or enhancements of anthropogenic removals by sinks]] shall be deemed final [30][60] days after the date on which it is made public, unless a Party [hosting] [involved in] the project[, [x] members of the [Article 6 supervisory committee] [Article 6 supervisory committee] [appropriate body]to be defined by the COP/MOP 1]] or [x] other Parties request a review by [Article 6 supervisory committee] [an appropriate body]. If such a review is requested, the [appropriate body] shall review the determination as soon as possible, but no later than [...].[Article 6 supervisory committee][The appropriate body] shall make its decision publicly available. Its decision shall be final.]

29. A Party included in Annex I hosting a project that is subject to the procedure specified in paragraphs 21 through [27][28] may transfer ERUs only when a determination is made in accordance with paragraph [27][28], and may not transfer a number of ERUs exceeding the number of tonnes of carbon dioxide equivalent identified in paragraph [27][28].

30. Information on the project associated with each ERU shall be made public through an electronic link with the project identifier, in accordance with the provisions on registries.

31. Except as required by national law, [Article 6 supervisory committee] [an independent entity][a verification team] [or the appropriate body] shall not disclose information regarding projects that has been marked as proprietary or commercially confidential, where such information is not otherwise publicly available, without the written consent of the provider of the information. Emission data or data relating to whether reductions in anthropogenic emissions by sources [or enhancements of anthropogenic removals by sinks] are additional shall not be considered proprietary or commercially confidential.

32. Parties involved in a project may elect to use the procedure set out in paragraphs 21 through [27][28] at any time. Parties that use the procedure shall bear the costs of such use.

Option B:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

K. Certification

Option A:

(Note: There is no need for this section.)

Option B:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

L. Issuance of emission reduction units

(Note: Some Parties have suggested that issues of fraud, malfeasance or incompetence of independent entities that come to light at this stage may need to be addressed.)

Option A:

33. Option 1: The [initial] transfer of an ERU between Parties shall be made by adding a project identifier to the serial number of the [unit] [part] of assigned amount] [in the registry of the transferring host Party included in Annex I, then removing the unit from the national registry of the transferring host Party and adding it to the national registry of the acquiring Party included in Annex I.

Option 2: [After the share of proceeds has been transferred,] the [initial] transfer of an ERU shall be made by adding a project identifier to the serial number [of the [unit] [part] of assigned amount] in the registry of the transferring host Party included in Annex I, then removing the unit from the national registry of the transferring host Party and adding it to the national registry of the acquiring Party included in Annex I.

Option B:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

/Appendix X (to the annex to decision [A/CP.6] on Article 6)

Supplementarity
[Appendix X (to the annex to decision [C/CP.6] on emissions trading)

"Part of"/Supplementarity

1. Option 1: No elaboration of supplementarity.

Option 2: Parties included in Annex I shall meet their emission limitation and reduction commitments primarily through domestic action. [Use of the mechanisms pursuant to Articles 6, 12 and 17 by a Party included in Annex I shall be limited to a maximum of 30 per cent of the effort required to meet its commitment under Article 3. This ceiling may be reviewed periodically by the COP/MOP.] Compliance with this requirement will be assessed by the compliance committee on the basis of information submitted under Article 7.

Option 3: Net acquisitions by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed the higher of the following alternatives:

(a) [5][25] per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5');

(b) 50 per cent of the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5 and its assigned amount.

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

If a Party is a member of an Article 4 agreement to fulfil commitments jointly, the assigned amount is the assigned amount allocated to the Party under that agreement. Otherwise, it is the assigned amount for the Party as calculated in accordance with Article 3, paragraph 7.

[Issues related to Article 4]

2. [Any limitations on the transfer or acquisition of CERs under Article 12 shall apply to the allocation of emission levels under Article 4.]

3. [Any limitations on net transfers or acquisitions of CERs under Article 12 shall apply to each individual Party operating under Article 4.]

4. [Reallocations under Article 4 shall count against the limitations referred to in Options 2-3.]

[Appendix A (to the annex to decision [A/CP.6] on Article 6)

Standards and procedures for the accreditation of independent entities

Appendix A of decision [B/CP.6] shall be applied mutatis mutandis

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached. Other Parties have proposed that guidelines for the implementation of Article 6 could be elaborated taking into account certain elements of the modalities and procedures for Article 12 project activities, such as those on accreditation of operational entities.)]

[Appendix B (to the annex to decision [A/CP.6] on Article 6)

[[Project proposal] [UNFCCC Article 6 reference manual]]
[Criteria for baselines, monitoring, and crediting lifetime]

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached. Other Parties have proposed that guidelines for the implementation of Article 6 could be elaborated taking into account certain elements of the modalities and procedures for Article 12 project activities.)]

[Appendix C (to the annex to decision [A/CP.6] on Article 6)

Determination and allocation of the share of proceeds

Option 1: *No share of proceeds*

Option 2:

1. The share of proceeds is defined as [x] [10] per cent of the number of ERUs issued for a Article 6 project.

2. The executive board shall auction and convert any ERUs into currency through an open competitive public process, and deposit the respective funds to the adaptation fund account and administrative expenses account.

3. [The [COP] [COP/MOP] shall adopt the budget to cover the administrative expenses of the executive board on a biennial basis. The equivalent amount shall be derived from the share of proceeds and shall be deposited to an account maintained for this purpose by the secretariat. The [COP] [COP/MOP] shall [ensure that the administrative budget will not be more than 10 per cent of the share of proceeds] [strive to maintain the administrative budget within a maximum of 10 per cent of the amount of the share of proceeds]. The remaining [amount, which shall not be less than 90 per cent of the share of proceeds,] [[90 per cent] [amount] of the share of proceeds] shall be devoted to assisting Parties not included in Annex I that are particularly vulnerable to the adverse effects of climate change, in particular least developed countries and small island developing States amongst them, [and/or to the impacts of the implementation of response measures] to meet the costs of adaptation and shall be transferred to an account maintained for this purpose by the adaptation fund [established by the COP/MOP] [referred in the relevant provisions].]

B. ARTICLE 12 OF THE KYOTO PROTOCOL*

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* FCCC/SB/2000/CRP.20 and Add.1

(Note: The text of this decision is from document FCCC/SB/2000/10/Add.2.)

[Draft decision [B/CP.6]: Modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol

The Conference of the Parties,

Recalling that in Article 12 of the Kyoto Protocol a clean development mechanism is defined with the purpose to assist Parties not included in Annex I to the Convention in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance [with part] of their quantified emission limitation and reduction commitments under Article 3 [and reflecting provisions contained in appendix X to the annex on modalities and procedures to decision [...]],

Options A:

Recalling its decision 1/CP.3, in particular paragraph 5 (e),

Recalling also its decision 7/CP.4 on a work programme on mechanisms to be undertaken with priority given to the clean development mechanism, and with a view to taking decisions on all the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol at its sixth session, including, where appropriate, recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session,

Recalling also its decisions 8/CP.4 and 14/CP.5,

Option B:

Recalling also its decisions 1/CP.3, 7/CP.4, 8/CP.4 and 14/CP.5,

Options A:

Bearing in mind the need to promote equitable geographic distribution of the clean development mechanism project activities at regional and sub-regional level,

Option B:

Bearing in mind the desirability of broad geographic distribution of the clean development mechanism project activities at regional and sub-regional level,

Emphasizing the importance of reliable, transparent baselines for assessing the additionality of project activities in accordance with paragraph 5 (c) of Article 12 of the Kyoto Protocol,

Recognizing the need for methodological guidance to project participants and designated operational entities,

Option A:

Emphasizing that Parties should use technologies in a way that minimizes any adverse environmental and social effects,

Option B:

Emphasizing that Parties included in Annex I to the Convention should promote should promote technologies and activities in Parties not-included in Annex I in a manner that minimizes any environmental, economic or social adverse effects.

Option A (paras. 1 to 4):

1. *Decides* to establish an executive board to facilitate a prompt start of the clean development mechanism;

2. *Decides* that the executive board referred to in paragraph 1, and any operational entities accredited by [that executive board][the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol], shall operate in the same manner as the executive board and designated operational entities of the clean development mechanism as set out in the annex on modalities and procedures and that the executive board shall convene its first meeting by [DD/MM/YYYY];

3. *Decides* that for the purposes of this decision, the Conference of the Parties shall assume the responsibilities of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol as set out in the annex on modalities and procedures;

4. *Decides* that this decision shall be effective immediately upon adoption and remain in effect until the decision referred to in paragraph 29 of this decision is adopted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;

Option B: (para 5)

5. *Decides* to prompt start the clean development mechanism, in accordance with the modalities and procedures in the annex to this decision, taking into account the prior need to set up requisite institutional and related arrangements, fully capable of functioning effectively to implement the modalities and procedures, including the convening of the executive board on an interim basis, with the Conference of the Parties assuming responsibilities of the Conference of the Parties serving as the meeting of the Parties to the Protocol related to the implementation of the clean development mechanism;

6. *[Urges] [Decides also that]* the Parties included in Annex I to the Convention [concerned to] [should] start implementing measures to assist Parties not included in Annex I to the Convention, in particular the least developed and small island developing States amongst them, with building capacity in order to facilitate their participation in the clean development mechanism, taking into account relevant decisions on capacity-building by the Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol as well as decisions on guidance to the financial mechanism of the Convention;

7. *[Establishes* a specific mechanism, to be facilitated, as appropriate, by the executive board, to assist Parties not included in Annex I to the Convention, in particular the least developed and small island developing States amongst them, with building capacity to participate in the clean development mechanism];

Option A: (paras 8 - 9)

8. *Decides* to adopt a[n initial] [positive] list of safe and environmentally sound eligible projects, based on [, inter alia,] the following categories, [taking into account the national priority needs of each Party not Included in Annex I]:

(a) Renewable energy: solar energy, wind energy, energy sources from sustainable biomass, geothermal heat and power, small-scale hydropower, wave and tidal power, ambient heat, ocean thermal energy conversion, activities to promote anaerobic respiration, and energy recovery from biogas, including landfill gas;

(b) Energy efficiency: advanced technologies for combined heat and power installations [and gas-fired power plants;] [significant] improvements in existing energy production [technologies;] advanced technologies for, and/or [significant] improvements in, industrial processes, buildings, energy transmission, transportation and distribution; more efficient and less polluting modes of mass and public transport (passenger and goods) and improvement [or substitution] of existing vehicles, and [existing fuel sources];

(c) Demand-side management: improvements in residential, commercial, transport, agricultural and industrial energy consumption.

(d) [Sustainable land-use, land-use change and forestry activities.]

9. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its first session after the entry into force of the Kyoto Protocol, review the positive list set out in paragraph 8 above, based on the experience with the [initial] positive list.

Option B: (para. 10)

10. *Establishes* a specific mechanism, to be facilitated, as appropriate, by the interim executive board, to assist Parties not included in Annex I to the Convention, in particular the least developed and small island developing States amongst them, with building capacity to participate in the clean development mechanism; keeping in view the need to build capacity for developing projects based on advanced technologies which augment energy efficiency or generate energy in a sustainable manner from biomass and renewable sources.

Option A: (paras. 11 - 13)

11. *Invites* the [Intergovernmental Panel on Climate Change][Subsidiary Body for Scientific and Technological Advice][executive board] to prepare guidelines for baseline setting under the guidance of the executive board, taking into account:

(a) All baseline-related sections of the annex on modalities and procedures for a clean development mechanism;

(b) All baseline methodologies as approved [in the interim phase of the clean development mechanism] by the [interim] executive board;

(c) Provisions contained in the annex on terms of reference for the establishment of guidelines on baselines;

12. *[Requests* the Subsidiary Body for Scientific and Technological Advice to [adopt] [recommend for adoption] the guidelines for baseline setting and accreditation procedures at its [sixteenth][xth] session;]

13. *[Requests* the executive board to include the guidelines adopted under paragraph 12 in the UNFCCC clean development mechanism reference manual;]

Option B: (paras 14 - 16)

14. *Invites* the Subsidiary Body for Scientific and Technological Advice to prepare guidelines for baseline setting under the guidance of the executive board to determine reductions in anthropogenic emissions by sources [and anthropogenic enhancements of removals by sinks] that are additional to any that would occur in the absence of certified project activity under the CDM.

15. *Requests* the Subsidiary Body for Scientific and Technological Advice to adopt the guidelines for baseline setting and accreditation procedures not later than its fifteenth session;

16. *Requests* the executive board to include the guidelines adopted under paragraph 15 in the UNFCCC clean development mechanism reference manual;

Option C: (paras 17 and 18)

17. *Invites* the Subsidiary Body for Scientific and Technological Advice to prepare recommendations and draft guidance on methodologies relating to baselines, [thresholds] and [monitoring], as specified in Annex [C] of this decision, with a view to adoption of such recommended methodologies and guidance by the Conference of the Parties at its seventh session;

18. In preparing the recommended methodologies and draft guidance , the Subsidiary Body for Scientific and Technological Advice shall take into account:

(a) Baseline-, [threshold-], and [monitoring-] related sections of the annex on modalities and procedures for a clean development mechanism;

(b) Any baseline [threshold], and [monitoring] methodologies as approved prior to COP/MOP 7 by the executive board specified in paragraph 1.

19. *Decides* that the adaptation fund shall be managed by [an existing institution][the entity entrusted with the operation of the financial mechanism];

20. *Decides* to review regularly the [equitable] regional and subregional distribution of clean development mechanism project activities with a view to promoting [equitable] [broad] distribution and provide appropriate guidance to the executive board accordingly.

Option A: para 21

21. [*Decides* to establish a clean development mechanism equitable distribution fund to provide financial assistance to project activities where this is necessary to address imbalances in the regional distribution of clean development mechanism project activities. The fund shall be

managed by [X]. The fund shall be financed by Parties included in Annex II in accordance with [a formula to be determined by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol][the formula set forth in appendix __]. Certified emission reductions generated by clean development mechanism project activities financed by this fund shall be distributed to Parties included in Annex II in proportion to their contribution. Parties not included in Annex I may, individually or jointly, propose clean development mechanism projects to the clean development mechanism equitable distribution fund. The executive board shall allocate funds, including grants, to projects in accordance with criteria, taking into account the geographic distribution of existing and planned clean development mechanism projects, the comparative needs of regions or countries for assistance in achieving sustainable development, and the contribution of the proposed project to the limitation and reduction of greenhouse gas emissions, as established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol. Allocated funds need not necessarily offset the full cost of a clean development mechanism project.]];

Option B: (para 22)

22. *Decides* to establish a clean development mechanism equitable distribution fund to provide financial assistance to project activities, where necessary. to address imbalances in the regional distribution of CDM project activities, to be financed by Parties included in Annex II, with certified emission reductions generated by such projects to be acquired by such Parties in proportion to their contribution,

23. *Elects* the members of the [interim] executive board [on an interim basis] [listed in the relevant annex to this decision], nominated in accordance with the modalities and procedures;

24. *Requests* the secretariat of the Convention to perform any functions assigned to it in decision [...] and respective annexes[1];

25. [*Decides* that the share of proceeds shall be collected and allocated, in accordance with provisions contained in appendix C, to cover administrative expenses and to the adaptation fund[2] defined in appendix D to the annex to this decision];

26. *Invites* Parties to contribute to [the trust fund established to cover] the administrative expenses of the [interim] executive board [established on an interim basis]. Such contributions shall be reimbursed, if requested, from the share of proceeds collected for administrative expenses in accordance with disbursement procedures and the timetable determined by the executive board;

Option A: (para 27)

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[1] The resource implications of the [prompt start] [establishment] of the clean development mechanism [on an interim basis] need to be specified.

[2] [An adaptation fund shall be established to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change, in particular the least developed countries and small island developing States amongst them, and/or to the impact of the implementation of response measures, under Articles 6 and 17, to meet the costs of adaptation.]

27. *Decides* to examine the [prompt start][facilitation of the establishment][interim operation] of the clean development mechanism not later than [x][5] years from the adoption of this decision and take any necessary action [by consensus]. Any revision shall not affect clean development mechanism project activities already registered;

Option B (para 28)

28. *Decides* to examine the facilitation of the establishment of the clean development mechanism not later than x years from the adoption of this decision, without affecting the project activities already registered;

29. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Protocol, at its first session, adopt the following decision:

Decision -/[CMP.1]

Modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

[Taking into account] [Recalling] provisions contained in Articles 3 and 12 of the Kyoto Protocol,

Bearing in mind that, in accordance with Article 12, the purpose of the clean development mechanism is to assist Parties not included in Annex I to the Convention in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with part of their quantified emission limitation and reduction commitments under Article 3 [and reflecting provisions contained in appendix X to the annex on modalities and procedures],

[Recognizing that each certified project activity must involve the participation both of a Party included in Annex I and a Party not included in Annex I for achieving the purpose of the clean development mechanism,]

[Recognizing that each certified project activity shall be on the basis of the voluntary participation of the Parties involved.]

[*Acknowledging* that the participation of Parties not included in Annex I in certified project activities for the purpose of sustainable development makes the clean development mechanism distinctive from the other mechanisms],

[*Also bearing in mind* the provisions contained in Articles 3 and 12 of the Kyoto Protocol, in accordance with which any certified emission reductions which a Party included in Annex I acquires from another Party not included in Annex I shall be added to the assigned amount of the acquiring Party, keeping in view that any such [acquisitions] [additions] are [only] [solely] for the purpose of contributing to the achievement of compliance with the quantified emission limitation and reduction commitments in Article 3 of the acquiring Party without altering that Party's assigned amount pursuant to its quantified emission limitation and reduction commitments inscribed in Annex B],

[*Bearing in mind further* that a share of the proceeds from certified project activities under the clean development mechanism shall be used to cover administrative expenses and to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation,]

[*Affirming* that, in their actions to achieve the purpose of the clean development mechanism, Parties shall be guided by Articles 2 and 3 of the Convention and, *inter alia*,

[Equity between developed and developing countries relates to equitable per capita emission entitlements for developing country Parties, keeping in view that per capita emissions in developing countries are still relatively low and that the share of global emissions originating in developing countries will grow to meet their social and development needs, taking fully into account that economic and social development and poverty eradication are the first and overriding priorities of such Parties, while affirming that developed country Parties shall continue to limit and reduce their emissions with the aim of attaining lower levels of emissions through domestic policies and measures with a view to reducing per capita inequities in emissions between developed and developing country Parties.]

Option A:

Additionality: Reductions in anthropogenic emissions by sources [and anthropogenic enhancement of removals by sinks] should be additional to any that would occur in the absence of the project activity, in accordance with Article 12, paragraph 5 (c). [Public funding for [the acquisition of CERs resulting from] CDM project activities from Parties included in Annex I shall be additional to the financial obligations [in Articles 4, paragraph 3, and 11 of the Convention] of Parties included in Annex II to the Convention within the framework of the financial mechanism as well as to current official development assistance [flows][targets]. [Commercially viable business-as-usual projects should not be eligible as clean development mechanism projects;

Option B:

Additionality: Reductions in anthropogenic emissions by sources [and anthropogenic enhancement of removals by sinks] should be additional to any that would occur in the absence of the project activity, keeping in view that business-as-usual projects shall not be eligible as CDM projects, while ensuring that overseas development assistance and the other existing financial commitments of Parties included in Annex I are not used for the acquisition of certified emission reductions, taking into account that the implementation of the commitment of Parties included in Annex II in Article 4, paragraphs 3, 5 and 7 of the Convention are distinct from the implementation of Article 12 of the Protocol.

[Non-discrimination, prevention of distortion of competition: All developing country Parties may participate in or initiate clean development mechanism project activities on a voluntary basis. No unilateral measures should preclude a Party not included in Annex I from participating in or initiating any clean development mechanism project activity. Clean development mechanism project activities should not distort competitiveness in the market of the host Party];

Special needs of least developed country Parties: [Activities under the] [Parties involved in] clean development mechanism should [give full consideration to the special] [take full

account of the specific] needs of least developed countries, in particular to the identification of their [special] technology needs and to capacity-building;

[Special vulnerabilities and character of small island developing States: Activities under the clean development mechanism should take into account the special vulnerabilities and character of small island developing States, in particular capacity-building for adaptation activities and the implementation of clean development mechanism project activities;]

[Special situations of developing countries that are particularly vulnerable to the adverse effects of climate change: Activities under the clean development mechanism shall take into account the adverse impacts on food and agricultural sustainability, keeping in view the poorest populations which are the most vulnerable, and the need to build capacity for adaptation activities and the implementation of CDM project activities;]

[Special situations of developing country Parties that are particularly vulnerable to the adverse impacts of mitigation activities: CDM project activities shall be implemented in such a way as to minimize adverse social, environmental and economic impacts on developing country Parties, particularly those identified under Article 4, paragraphs 8 and 9 of the Convention.]

Having considered decision [B/CP.6] on modalities and procedures for the clean development mechanism,

1. *Decides* to confirm and give full effect to any actions taken pursuant to decision [B/CP.6];

2. *Adopts* the modalities and procedures for [project activities in the sectors contained in Annex A of the Protocol under] the clean development mechanism contained in the annex on modalities and procedures;

3. *Decides* that possible future revisions of this decision [and the annex on modalities and procedures] may be considered, taking into account the experience of Parties. Revisions shall not affect clean development mechanism project activities already registered. [Any revisions to this decision shall be made by consensus of the Parties. [The first such revision shall be undertaken not less than five years after the adoption of the clean development mechanism modalities and procedures by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session.]]

Annex to draft decision [B/CP.6]:

MODALITIES AND PROCEDURES FOR A CLEAN DEVELOPMENT MECHANISM

[Definitions

For the purpose of this annex:

(a) "Protocol" means the Kyoto Protocol to the United Nations Framework Convention on Climate Change, as adopted on 11 December 1997.

(b) "Party" means, unless the context otherwise indicates, a Party to this Protocol.

(c) "Party included in Annex I" means a Party included in Annex I to the Convention, as may be amended, or a Party which has made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol.

(d) "Party not included in Annex I" means a Party not included in Annex I to the Convention, as may be amended, and which has not made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol.

(e) "Article" means an article of the Protocol, unless otherwise indicated.

(f) "Emissions reduction units" or "ERUs" are units [issued] [transferred] pursuant to Article 6 and requirements thereunder;

(g) ["Assigned amount units" or "AAUs"] ["Parts of assigned amount" or "PAAs] are [serialized parts of the assigned amount of a Party included in Annex B] [units calculated pursuant to Article 3, paragraphs [3, 4,] 7 and 8].

(h) "Certified emissions reductions" or "CERs" are units issued pursuant to Article 12 and requirements thereunder;

(i) [AAUs][PAAs], ERUs and CERs are units each equal to one tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;

(j) ["Assigned amount" includes [AAUs][PAAs], CERs and ERUs.]

(k) ["Stakeholders" means the public, including individuals, groups or communities affected by or likely to be affected by, or having an interest in the project.]]

A. Role of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) shall have authority over and provide guidance to the clean development mechanism (CDM) and shall:

(a) Consider annual reports of the executive board and provide guidance to the executive board and decide on recommendations made by the executive board consistent with provisions in this annex [regarding [the implementation of the decisions of the COP/MOP on] issues such as project eligibility, criteria for additionality, methodologies for determining baselines; guidelines for monitoring, verification, certification, accreditation and reporting; and the reporting format];

(b) [Define the functions of the executive board of the CDM];

(c) Approve rules of procedure for the executive board [, including for the preparation and distribution of the provisional agenda of executive board meetings];

(d) Option 1: Receive a list of the operational entities designated by the executive board.

Option 2: Designate operational entities recommended by the executive board.

(e) Assist in arranging funding of clean development mechanism project activities as necessary;

(f) Review the [equitable] regional and subregional distribution of CDM projects with a view to identify systematic barriers and take appropriate decisions.

(g) [Arrange for the effective management of the adaptation fund defined in appendix D and to revise the determination and/or the allocation of the share of proceeds in accordance with the provisions of this annex;]

2. Option 1: [The COP/MOP shall consider and decide upon any matter which a Party may refer to it related to a decision of the executive board in accordance with the rules which may be formulated for such purpose.]

Option 2: [A Party may propose an appeal against an executive board decision in accordance with the COP/MOP rules of procedures.]

3. [Nothing in this section shall prevent the COP/MOP from considering and deciding any matter, *suo-moto*, which may be related to the working of the CDM, including the review, modification, or overruling of any decision or other act of the executive board.]

B. Executive board

4. The executive board shall supervise the CDM, subject to the authority and guidance of the COP/MOP;

5. The executive board shall:

(a) Be responsible for carrying out functions ascribed to it in decision [...], this annex and relevant decisions of the COP/MOP and be fully accountable to the COP/MOP;

(b) [Make recommendations to the COP/MOP on its rules of procedure][Adopt rules of procedure on a provisional basis and submit them to the COP/MOP for approval. This process should also be followed when such rules of procedure are amended];

(c) Report to each session of the COP/MOP on its activities and make recommendations for consideration by the COP/MOP, as appropriate, on modalities and procedures;

(d) [Address, through the independent review procedure referred to in paragraph 58, substantiated written concerns and objections which it believes have merit [raised by Parties [or UNFCCC accredited observers]] relating to the observance of modalities and procedures of the CDM and take appropriate action;]

(e) Be responsible for the accreditation of the operational entities;

(f) Review the accreditation standards in Appendix A and, if appropriate, make recommendations to the COP/MOP on changes to these standards;

(g) [Maintain and make available the UNFCCC CDM reference manual as set out in appendix B;]

(h) [[Approve] [Make recommendations to the COP/MOP] on new methodologies, and guidelines related to project boundaries and baselines];

(i) [Make recommendations to the COP/MOP on types of project activities that can be included in and/or excluded from the CDM;]

(j) Develop and maintain a publicly available database of CDM project activities;

(k) [Develop and maintain a CDM registry as defined in appendix F];

(l) [Make publicly available relevant information on proposed CDM project activities in need of funding and on investors seeking opportunities in order to assist in arranging funding of CDM project activities, as necessary;]

(m) Review the [equitable] regional and subregional distribution of CDM projects with a view to identifying systemic barriers and report to the COP/MOP thereupon;

(n) Make publicly available all relevant, non-confidential information, in accordance with subparagraph (o) below and provisions contained in decision [...], the annex on modalities and procedures and relevant decisions by COP/MOP on CDM project activities, including that contained in registered project design documents, comments received, verification reports, its decisions and on all CERs issued;

(o) Not disclose, except as required [by COP/MOP decisions, information obtained from CDM project participants marked as proprietary or confidential, where such information is not otherwise publicly available, without the written consent of the provider of the information. [The environmental impact assessment as referred to in para. 49 (d) and] information used to determine additionality as defined in paragraph[s] [63][64 and 65] shall not be considered confidential or proprietary;

(p) The executive board shall review [expeditiously][by COP/MOP] the definition of projects specified in paragraphs 77 and 78, recommend and review measures through which such projects receive [preferential treatment, and decide criteria by which to exempt [business-as-usual] projects.].

6. The executive board shall comprise ...

- Option 1: [eight][x] members chosen from among Parties included in Annex I, and [eight][x] members chosen from among Parties not included in Annex I [on a rotational basis] [including one member to represent the small island developing States, taking into account the interest groups as reflected by the current practice in the bureau of the Conference of the Parties (COP)].

- Option 2: [three][x] persons proposed by Parties from each of the five United Nations regional groups, [on a rotational basis] [including one member to represent the small island developing States, taking into account the interest groups as reflected by the current practice in the COP bureau].

7. Members of the executive board shall be nominated by Parties included [and Parties not included in Annex I, respectively] [in each of the five United Nations regional groups] and be elected by the COP/MOP. Vacancies shall be filled in the same way.

8. Members shall be appointed for a period of two years and be eligible to serve a maximum of two consecutive terms. Half of the members nominated initially by each group shall serve for a period of three years. Appointment pursuant to paragraph 16 shall count as one term. The members shall remain in office until their successors are elected.

9. Members should possess recognized appropriate technical and/or policy expertise [and shall act in their personal capacity].

10. [Members shall have no pecuniary interest in any CDM project activity submitted to the executive board for the purpose of registration or for any other purpose.]

11. [Members shall have no pecuniary interest in any issuance of CERs by the executive board.]

12. Subject to their responsibilities to the executive board, members shall not disclose any confidential information coming to their knowledge by reason of their duties for the executive board.

13. The duty of the member not to disclose confidential information constitutes an obligation in respect of that member and shall remain an obligation after the expiration or termination of that member's function for the executive board.

14. Before assuming his or her duties, each member shall make a written declaration witnessed by the Secretary-General of the United Nations or his/her authorized representative.

15. The executive board may suspend and recommend to the COP/MOP to terminate the membership of a particular member for cause on any of the following grounds:

(a) Breach of the conflict of interest provisions;

(b) Breach of the confidentiality provisions;

(c) [Failure to attend two consecutive meetings of the executive board];

16. If a member of the executive board resigns or is otherwise unable to complete the assigned term of office or to perform the functions of that office, the executive board may, bearing in mind the proximity of the next session of the COP/MOP, decide to appoint another member to replace the said member for the remainder of that member's mandate. In such a case, the executive board shall take into account views expressed by the group that had nominated the member.

17. [The executive board shall elect its own chair and vice-chair, with one being a member from a Party included in Annex I and the other being a member from a Party not included in Annex I. The chair and vice-chair shall alternate annually between members from Parties included and Parties not included in Annex I, respectively.]

18. The executive board shall meet as necessary but no less than three times a year.

19. At least two thirds of the members of the executive board, representing a majority of members from Parties included in Annex I and a majority of members from Parties not included in Annex I, must be present to constitute a quorum.

20. Decisions by the executive board shall be taken by consensus[, whenever possible. If all efforts at reaching a consensus have been exhausted, and no agreement reached, decisions shall be taken by a two-thirds majority of the members present and voting at the meeting, representing a majority of members from Parties included in Annex I and a majority of members from Parties not included in Annex I. Members abstaining from voting shall be considered as not voting].

21. [Meetings of the executive board shall be open to attendance, as observers, [by all Parties and] by all UNFCCC accredited observers except where otherwise decided by the executive board;]

22. The full text of all decisions of the executive board shall be kept by the secretariat, communicated to each Party and made publicly available. The working language of the executive board shall be English. Decisions shall be made available in all six official languages of the United Nations.

23. The executive board shall, as appropriate, make arrangements for the administrative support necessary for its activities, under the guidance of the COP/MOP.

24. The executive board may establish committees, panels or working groups to assist in the performance of its functions [as well as draw on outside expertise] for advice on technical and methodological matters, as appropriate. In this context, it shall take into account the consideration of regional balance, subject to compliance with the rules concerning avoidance of conflict of interest.

C. Accreditation

25. In assuming the responsibility of accrediting operational entities, the executive board:

(a) Shall recommend to the COP/MOP entities that meet the accreditation standards contained in appendix A for designation as operational entities in accordance with Article 12.5;

(b) Shall maintain a publicly available list of all designated operational entities;

(c) Shall review whether each designated operational entity continues to comply with the accreditation standards contained in appendix A and on this basis confirm whether to reaccredit the operational entity every three years;

(d) May in addition conduct spot-checking at any time and, on the basis of the results, may decide to conduct the above mentioned review.

26. The executive board may recommend to the COP/MOP to suspend or withdraw the designation of an operational entity if it finds that the entity no longer meets the accreditation standards or applicable provisions in decisions of the COP/MOP. The executive board may recommend the suspension or withdrawal of designation only after the designated operational entity has had the possibility of a hearing. The suspension or withdrawal comes into immediate effect on a provisional basis, once the executive board has made a recommendation and remains in effect pending a final decision by COP/MOP. The affected entity shall be notified, immediately and in writing, once the executive board has recommended its suspension or withdrawal. The recommendation by the executive board and decision by COP/MOP on such a case shall be made public.

27. Registered project activities shall not be affected by the suspension or withdrawal of designation unless significant deficiencies identified in the validation report, verification report or certification related to the CDM project activity constitute the reason for the suspension or withdrawal of the designation [, including deficiencies due to fraud, malfeasance or gross incompetence.]

28. If such deficiencies in a validation report, verification report or certification related to a CDM project activity constitute the reason for the suspension or withdrawal of the designation of a designated operational entity, then the executive board shall decide whether a different designated operational entity shall be appointed to assess and, where appropriate correct, such deficiency. If this assessment reveals that excess CERs were issued, a quantity of [AAU][PAA], ERUs or CERs equal to the excess CERs issued for that project or a monetary equivalent, as determined by the executive board shall, within 90 days, be [transferred][credited] to a cancellation account in the CDM registry by the designated operational entity whose accreditation has been withdrawn or suspended.

29. Any suspension or withdrawal of a designated operational entity that adversely affects registered project activities shall be taken only after the affected project participants have had the possibility of a hearing.

30. Any costs resulting from the assessment, referred to in paragraph 28, shall be borne by the designated operational entity whose accreditation has been withdrawn or suspended.

31. The executive board may seek assistance in performing the functions in paragraph 25, in accordance with the provisions of paragraph 24.

D. Designated operational entities

32. Designated operational entities shall be responsible for carrying out functions referred to in sections D and I-K and in the appendices to the annex on modalities and procedures as well as in other relevant decisions of the COP/MOP and the executive board, consistent with this decision and its annex.

33. A designated operational entity shall:

(a) Be accountable to the COP/MOP through the executive board;

(b) Validate proposed CDM project activities;

(c) Verify and certify anthropogenic emission reductions by sources [and enhanced anthropogenic removals by sinks];

(d) Comply with the modalities and procedures in this decision and its annex, as well as other relevant decisions of the COP/MOP and the executive board;

(e) Comply with applicable laws of the Parties hosting CDM project activities related to which that it carries out validation or verification and certification functions;

(f) Demonstrate that it, and its subcontractors, have no real or potential conflict of interest with the participants of the CDM project activities for which it has been selected to carry out validation or verification and certification functions;

(g) Perform one of the following functions related to a given CDM project activity: validation or verification and certification. The executive board may allow a single designated operational entity to perform all functions;

(h) Maintain a public list of all CDM project activities related to which it carried out validation, verification and certification;

(i) Submit an annual activity report to the executive board.

34. [The COP/MOP *requests* the executive board to encourage the accreditation of operational entities located in Parties not included in Annex I and to review the regional distribution and balance of operational entities on a regular basis.]

E. Requirements for eligibility of Parties included in Annex I

(Note: This section may have linkages with decision --/CP.6 establishing procedures and mechanisms on compliance.)

35. Option 1: A Party included in Annex I may acquire CERs under the provisions of Article 3 if the Compliance Committee has decided that the Party has demonstrated that it has met the eligibility requirements in subparagraphs (a), [(g)], [(h)], [(i)], [(j)], [(k)] and [(l)] of paragraph 36 below.

Option 2: A Party included in Annex I may:

(a) Use CERs to contribute to compliance with part of its quantified emission limitation and reduction commitments under Article 3 after [XX[1]] months have elapsed since the submission of a report to the secretariat documenting that it meets the requirements in subparagraphs (b) through (d) [and (g) through [(i)][(l)]] of paragraph 36 below, unless the Compliance Committee has found that it has not met one or more of such requirements;

(b) Use CERs to contribute to compliance with part of its quantified emission limitation and reduction commitments under Article 3 at an earlier date if the enforcement branch of the Compliance Committee has notified the secretariat that it is not proceeding with any question of implementation relating to the requirements in subparagraphs (b) through (d) [and (g) through [(i)][(l)]] of paragraph 36 below;

(c) Continue to use CERs, unless and until the Compliance Committee has found that it has not met one or more of the requirements in subparagraphs (b) through (e) [and (g) through [(i)][(l)]] of paragraph 36 below. If the Compliance Committee has found that a Party does not meet one or more of such requirements, the Party may use CERs only if and when the Compliance Committee finds that the Party meets such requirements and therefore reinstates its eligibility to use CERs.

36. In order to meet the eligibility requirements referred to in paragraph 35, a Party shall:

Option 1: ***This option relates to sub-para (a)***

(a) Be in compliance with its commitments under Articles [3,]5 and 7 of the Protocol and the requirements set out in the guidelines decided thereunder, including the submission of the last available annual greenhouse gas inventory and greenhouse gas inventory report and the provisions on registries as defined in [...];

Option 2: ***This option relates to sub-paras (b) through (f)***

(b) Have in place, by the time a report is submitted pursuant to paragraph 35 (a) and thereafter, a national system for the estimation of anthropogenic emissions by sources and removals by sinks of all greenhouse gases not controlled by the Montreal Protocol, in accordance with Article 5.1 and the requirements in the guidelines decided thereunder;

(c) Have in place, by the time a report is submitted pursuant to paragraph 35 (a) and thereafter, a computerized national registry to account for and track [all changes in its assigned amount] [ERUs, CERs and [AAUs] [PAAs] transferred or acquired] [additions and subtractions of [AAUs] [PAAs] and ERUs and additions of CERs] as provided for under the provisions in Article 3, paragraphs 10, 11 and 12], in accordance with Article 7.4 and the requirements in the guidelines decided thereunder;

(d) [Have established, by the time a report is submitted pursuant to paragraph 35 (a), its [initial] assigned amount, in accordance with Article 7.4 and the requirements in the guidelines decided thereunder];

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[1] A specified time period sufficient to allow the Article 8 expert review teams and the enforcement branch of the Compliance Committee a reasonable opportunity to identify and rule upon any problems.

(e) Have submitted, in the report described in paragraph 35 (a), one annual inventory for the relevant recent year, [of anthropogenic emissions by sources [and removals by sinks] of greenhouse gases not controlled by the Montreal Protocol] in accordance with the provisions of Articles 5.2 and 7.1 and the requirements in the guidelines decided thereunder [pertaining to Annex A gases and sources], other than those relating to the deadline for the first submission;

(f) Have subsequently submitted for each year following the submission of the report described in paragraph 35 (a), annual reports [information on its assigned amount], in accordance with Article 7.1 and the requirements in the guidelines decided thereunder, and annual inventories, in accordance with Articles 5.2 and 7.1 and the requirements in the guidelines decided thereunder [pertaining to Annex A gases and sources];

Note: The following subparagraphs (g) through (l) could form part of option 1 or option 2:

(g) [Have ratified the Protocol];

(h) [Be bound by the procedures and mechanisms on compliance adopted by the COP/MOP];

(i) [Have submitted the last required [all] periodic national communication[s] in accordance with Article 7.2 and in the guidelines decided thereunder.]

(j) [Have not been excluded from participation in the CDM [according to its procedures and mechanisms][and in accordance with relevant provisions under the Protocol].]

(k) [Have submitted the last required information on net changes in greenhouse gas emissions by sources and removals by sinks resulting from direct human induced activities in conformity with the requirements under Article 3.3 and 3.4, in accordance with the relevant decisions by the COP and the COP/MOP; and]

(l) [Have achieved sufficient emission reductions through domestic [action] [policies and measures] [, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17] [in accordance with appendix X].

F. Participation

37. [Each certified project activity in the CDM must involve the participation both of a Party included in Annex I and a Part not included in Annex I.]

38. Participation in a CDM project activity is voluntary.

39. A Party not included in Annex I may benefit from CDM project activities if it:

(a) Has ratified the Protocol;

(b) [[Has submitted its national communications in accordance with Article 12 of the Convention][Is in compliance with its commitments under Article 12 of the Convention taking into account Articles 4.3, 4.5 and 4.7 of the Convention];]

(c) [[Is bound by procedures and mechanisms on compliance adopted by the COP/MOP] [Is bound by procedures and mechanisms on compliance adopted by the COP/MOP

and has not been excluded from participation in the CDM according to its procedures and mechanisms];]

40. [A private or public entity [, including international financial entities and multilateral funds,] may participate in CDM project activities with the approval of the [Parties involved][Party in which it is operating or legally resident, if the Party meets the requirements in paragraphs 36 as applicable].]

41. Option 1: The participation of private and/or public entities in CDM project activities does not affect the commitments of Parties included in Annex I under the Protocol and the Convention. [Any costs, risks or liabilities that have not been expressly accepted by the Party not included in Annex I at the time of approval of the CDM project activity shall be assumed to be the responsibility of the participating Party included in Annex I. [In cases where no Party included in Annex I or entity [resident in] [of] such a Party is involved, the host Party assumes total responsibility for the project.]

Option 2: A Party included in Annex I that authorizes participation of private and/or public entities [under the CDM, including in activities mentioned in Article 12, paragraph 3 (a), and in the acquisition of certified emission reductions] [in CDM project activities] shall remain responsible for the fulfilment of its obligations under the Protocol and the Convention and shall ensure that such participation is consistent with this annex on modalities and procedures.

42. A Party may develop national rules or guidelines, consistent with modalities and procedures established for the CDM, for the participation in CDM project activities of that Party and of entities resident in or operating under the jurisdiction of that Party. The Party shall publish such national rules and guidelines.

43. Parties participating in the CDM shall designate a national authority for the CDM;

44. The executive board shall deal with issues relating to Article 12 which are not addressed to the Compliance Committee, in accordance with provisions contained in this decision and the annex on modalities and procedures.

G. Financing

45. [[Public] funding for [the acquisition of CERs resulting from] CDM project activities from Parties included in Annex I shall [be clearly additional to][and][not result in a diversion of] [be separate from and shall not be counted towards] the financial obligations of Parties included in Annex II to the Convention within the framework of the financial mechanism as well as to [current] official development assistance (ODA) [flows];]

46. Option 1: CDM project activities may be developed, financed and implemented, individually or jointly, by Parties included [and/or not included] in Annex I and private or public entities, including international financial entities and multilateral funds. [ODA funds shall not be used for the acquisition of CERs.]

Option 2: Funding for CDM project activities shall be provided by the participating Party included in Annex I to the participating Party not included in Annex I on the basis of the CERs to be acquired from the project activities as [sole] return for the participating Party included in Annex I for meeting part of its quantified emission limitation and reduction

commitments under Article 3 of the Protocol. Parties included in Annex I may involve private and/or public entities in such funding. CDM projects shall be financed by Annex I project participants through bilateral agreement between Annex I and non-Annex I project participants.

H. Validation and registration

47. Validation is the process of independent evaluation of a project activity by a designated operational entity against the requirements of the CDM as set out in the decision [...] and the annex on modalities and procedures, on the basis of the project design document, as outlined in appendix B.

48. Registration is the formal acceptance by the executive board of a validated project as a CDM project activity. Registration is a prerequisite for the verification, certification and issuance of CERs related to that project activity.

49. The designated operational entity selected by project participants, and under a contractual arrangement with them, to validate a project activity, shall [review the project design document and any supporting documentation to] confirm that the following requirements are met:

(a) The project participants are eligible to participate in CDM project activities;

(b) [The project activity is eligible under the CDM;]

(c) [Comments by stakeholders have been considered [in accordance with relevant national requirements];]

(d) [The project activity has undergone an environmental impact assessment. An environmental impact assessment consist of screening for relevance, and, if relevant, scoping to determine the magnitude of impacts and appropriate means of mitigation]

(e) [The project activity satisfies the threshold criterion set out in paragraph 65];

(f) The baseline methodology, [threshold] and monitoring plan comply either with:

(i) Methodologies approved by the [executive board][COP/MOP];or

(ii) Modalities and procedures for a new methodology;

(g) [For projects designed to enhance anthropogenic removals by sinks, the project ensures that CERs reflect real, measurable and long-term benefits in enhancement of removals and/or avoidance of emissions of greenhouse gases by specifying:

(i) A proposed period of time during which carbon would remain sequestered; and

(ii) Modalities to address the possibility that some or all carbon sequestered through the project is released before the time specified in subparagraph (i) has elapsed;][2]

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[2] Proposal 4 of FCCC/SB/2000/ MISC.4/Add.1/Rev.1 may be further considered in this respect.

(h) The project activity is expected to result in anthropogenic emissions by sources, [or an enhancement of anthropogenic removals by sinks] that are additional to any that would occur in the absence of the proposed project activity;

(i) [Provisions for monitoring, verification and reporting of relevant project performance indicators are in accordance with provisions set out in decision [...] and the annex on modalities and procedures;]

(j) The CDM project activity uses a crediting period that satisfies the requirements specified in paragraph 83;

(k) The project conforms to all other requirements for CDM project activities in decision [...], the annex on modalities and procedures, and relevant decisions by the COP/MOP [and by the executive board].

50. If the designated operational entity determines that the project activity uses a methodology referred to in paragraph 49 that has not been previously approved, it must forward the methodology to the executive board for review in accordance with the provisions of paragraphs 51 and 52.

51. The executive board shall expeditiously, if possible within 3 months, review a proposed new methodology prior to the registration of a project activity intending to use such methodology. Whenever the executive board [approves] [recommends to approve to the COP/MOP] such a methodology, it shall make it publicly available along with any relevant guidance related to its application to other projects with similar characteristics.

52. Methodologies that have been approved by the [executive board][COP/MOP] may be used by project participants without further executive board review, provided that the designated operational entity determines that the methodology is appropriate to the circumstances of the proposed project activity.

53. In accordance with provisions on confidentiality contained in paragraph 5 (o), the designated operational entities shall make publicly available the project design document. [It shall receive comments from Parties[, stakeholders] [and UNFCCC accredited] non-governmental organizations on elements relating to [sustainable development,][all aspects of the project design document,][the threshold,]baseline methodology, the adequacy of the monitoring plan, other issues relating to additionality and leakage [and in the case of sequestration projects, adequacy of methodologies pursuant to paragraph 49 (g)] [for [30] [60] days from the date the project design document was made publicly available.]

54. After the deadline for receipt of comments, the designated operational entity will make a determination as to whether, on the basis of the information provided and taking into account the comments received, the project activity should be validated. If requested to do so by a Party or by a member of the executive board, the operational entity shall make available all comments received.

55. The designated operational entity shall inform project participants if it determines that the project design, as documented, does not fulfil the requirements for validation, explaining the reasons for non-acceptance.

56. Prior to the submission of the validation report by the designated operational entity to the executive board, the project participants shall provide a formal letter of approval from the designated national authority of [each Party involved][the host Party to demonstrate host Party approval, including confirmation that the project assists the host Party in its sustainable development].

57. If the designated operational entity determines that the proposed project activity is valid, the designated operational entities shall submit to the executive board a request for registration including the validated project design document and its determination including the project design document, [a summary of the comments received and how the designated operational entity has taken due account of these comments]. It shall make this validation report publicly available.

58. The registration by the executive board shall be deemed final [30] [60] days after the date of receipt by the executive board of the request for registration, unless a Party involved in the project activity, or at least [x] members of the executive board[or at least [y] Parties, or at least [xx] stakeholders, or at least [xx] UNFCCC accredited NGOs] request a review of the proposed CDM project activity. Such a request shall be made in accordance with the following provisions:

(a) Requests for reviews [may relate to any aspect of the project design document] [shall relate to issues associated with the applicability of [the threshold,]baseline methodology to the project activity, the adequacy of the monitoring plan, other issues relating to additionality and leakage [and in the case of sequestration projects, adequacy of methodologies pursuant to paragraph 49 (g)]];

(b) Upon receipt of a request for review in accordance with this paragraph, the executive board [at its next meeting] shall decide whether the request has merit. If the executive board decides the request lacks merit it shall register the project at that meeting. If the executive board decides that the request has merit it shall perform a review in accordance with this paragraph and decide whether the proposed registration should be approved;

(c) The executive board shall complete its review no later than the second meeting following its decision that the request for review has merit;

(d) The executive board shall inform the project participants of its decision, and make its decision and the reasons for it public.

59. A proposed project activity that is not accepted may be reconsidered for validation and subsequent registration. After appropriate revisions, the revised project activity, to be registered as a CDM project activity, has to meet all the procedures and requirements for validation and registration, including those related to public comments.

60. [CDM project activities shall:

(a) Lead to the transfer of [state-of-the-art][appropriate,][the best available, and practicable for the circumstances of the host Party,] environmentally safe and sound technology in addition to that required under other provisions of the Convention, in particular additional to Article 4, paragraph 5, and the Protocol;

(b) [Give priority to renewable energy, ocean thermal energy conversion, activities to promote anaerobic respiration, energy efficiency technologies that are at the top end of efficiency practice anywhere, and reducing emissions from [the transportation sector] [all sectors] [, without discriminating against one of them];]

(c) [Not [support][include] the use of nuclear power;]

(d) [Not include activities enhancing anthropogenic or non-anthropogenic removals by sinks of greenhouse gases [until the outcome of methodological work on Article 3, paragraphs 3 and 4, is reached and the COP/MOP decides on the eligibility of such project activities in the CDM][that [go against] other multilateral environmental agreements [or against the principles agreed in Agenda 21 and the United Nations Commission on Sustainable Development]];]

(e) [Include project activities for land-use, land-use change and forestry, including afforestation and reforestation[[and prevention of deforestation,][conservation and anthropogenic enhancements by sinks,]] [for the period between the year 2000 and the beginning of the first commitment period,] if they comply with the conditions established in decision -/CP.6 on the implementation of Article 3, paragraphs 3 [and 4] of the Kyoto Protocol;]

(f) [Give priority to carbon sequestration[for the combating of desertification, the conservation of biodiversity and watersheds, and the improvement of land management];]

61. [A project activity may be eligible for registration as a CDM project activity if the resultant reductions in anthropogenic emissions by sources [and/or enhancements of anthropogenic removals by sinks] commenced after [1 January 2000][11 December 1997] [or the date of the host Party's ratification of the Protocol, whichever is later,] or was reported as an activity implemented jointly under the pilot phase if it meets requirements of these modalities and procedures. [If a project activity was reported as an activity implemented jointly under the pilot phase and is registered as a CDM project activity the anthropogenic emission reductions by sources [and/or enhanced anthropogenic removals by sinks] from 1 January 2000 will be eligible for retrospective verification and certification].]

62. CDM project activities shall be project-based, carried out on a project-by-project basis and may be embedded in broader projects.

Option A (para. 63)

63. A CDM project activity is additional if:

(a) Emissions are reduced below [or anthropogenic removals by sinks are increased beyond] those that would have occurred in the absence of the registered CDM project activity;

(b) [[Public] funding for [the acquisition of CERs resulting from] CDM project activities from Parties included in Annex I shall [be clearly additional to][and][not result in a diversion of] [be separate from and shall not be counted towards] the financial obligations of Parties included in Annex II to the Convention within the framework of the financial mechanism as well as to [current] official development assistance (ODA) [flows] (financial additionality);]

(c) [Investment additionality is given if the risk-adjusted internal rate of return of the CDM project activity is below [x] per cent. The executive board determines a country-specific risk adjustment factor and the value of [x].]

Option B (paras. 64 to 66)

64. Reductions of anthropogenic emissions by sources and [or enhanced anthropogenic removals by sinks] resulting from a CDM project activity shall be considered additional for the purposes of Article 12, paragraph 5 (c), if the CDM project activity meets the threshold criterion established under paragraph 65 and the emission are be lower than [and/or removals exceed] those of the approved baseline for the CDM project activity.

65. To be eligible as a CDM project activity, a proposed project activity must achieve a level of performance with respect to reductions in anthropogenic emissions by sources [or enhancement of anthropogenic removals by sinks] that is significantly better than average compared with recently undertaken and comparable activities or facilities within an appropriate geographical area. This threshold criterion shall be satisfied if:

(a) The proposed project activity uses a quantitative methodology to demonstrate that it meets the threshold that has been approved by the executive board, and the designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied; or

(b) In cases where there is no applicable quantitative methodology that has been approved by the executive board, or where the project participants believe that previously approved quantitative methodologies are inappropriate for their project activity, the proposed project activity uses an alternative methodology to demonstrate that the project will achieve a level of performance with respect to reductions in anthropogenic emissions by sources [or enhancement of anthropogenic removals by sinks] that is significantly better than average, provided that the executive board approves the alternative methodology upon submission by the operational entity. Upon approval of the alternative methodology by the executive board, the designated operational entity will determine that the methodology is appropriate to the circumstances of the project activity and has been properly applied; or

(c) For categories of projects for which a level of performance cannot be established using quantitative methodologies, the project is better than standard practice with respect to emission reductions [and/or removals].

66. [The term "reference scenario" means a set of recent and comparable activities or facilities that are defined in a manner sufficient to demonstrate what would likely have occurred in the relevant sector in the absence of the proposed project activity, taking into account any guidance provided by the executive board. The relevant geographic area for the reference scenario shall [normally] be defined as the [Annex I][host Party] but, depending on the circumstances, may be defined to encompass a larger or smaller area, taking into account any guidance provided by the executive board.]

67. The baseline for a CDM project activity is the scenario that reasonably represents the anthropogenic emissions by sources [or anthropogenic enhancements of removals by sinks] that would occur in the absence of the proposed project activity [in accordance with paragraph 70 below]. A baseline shall cover emissions from sectors and sources listed in Annex A to the

Protocol[, as well as deforestation,][and enhanced anthropogenic removals by sinks], within the project boundary, and shall address all greenhouse gases listed in Annex A to the Protocol.

68. The baseline may include a scenario where future anthropogenic GHG emissions by sources [or anthropogenic removals by sinks] are projected to rise above current levels, due to the specific circumstances of the host Party.

69. The baseline [methodology] shall take into account how to address changes in activity levels.

70. [A baseline shall be deemed to reasonably represent the anthropogenic emissions by sources [or anthropogenic enhancements of removals by sinks] that would occur in the absence of the proposed project activity only if it is derived using:

(a) A baseline methodology that has been approved by the [COP/MOP][executive board] and the designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied; or

(b) An alternative baseline methodology, provided that the [COP/MOP][executive board] approves the methodology upon submission by the designated operational entity and following approval of the alternative methodology by the [COP/MOP][executive board], the designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied.]

71. Project participants [may choose the baseline methodology for the proposed project activity but]shall explain in a transparent manner the choice of approaches, assumptions, methodologies, parameters, data sources and key factors for the determination of the project baseline and additionality in the project design document to facilitate project validation and replication.

72. Baselines shall be established in accordance with provisions contained in decision [...], the annex on modalities and procedures [and the UNFCCC CDM reference manual] for the use of approved methodologies or approval of new methodologies.

73. Option 1: Baselines shall be established on a project-specific basis.

Option 2: Baselines may use either project-specific or multi-project baseline methodologies.

Option A:

74. Further work on baseline methodologies for CDM shall take into account the following methodological approaches:

(a) Existing actual and historical emissions, as applicable;

(b) Least cost technology for the activity;

(c) Recently undertaken activities or facilities within in the host country or the appropriate region.

Option B (para. 75):

75. The baseline for a project activity to reduce emissions by an existing or new source shall, considering trends, represent[, as appropriate,] the lowest of:

(a) Actual emissions prior to the project in case of an existing source;

(b) Emission from a technology that represents an economically attractive course of action, taking into account barriers to investment;

(c) The average emissions of comparable projects in the host country or an appropriate region undertaken during the previous two years or, if no investment had taken place during that period, the most recent comparable investment. Better-than-average current industry practice in the host country or an appropriate region;

(d) [For a new source, the [average] [top X per cent] for such a source in Parties included in Annex [I] [II][, if relevant].]

76. [A baseline for a land-use, land-use change and forestry project to reduce anthropogenic emissions by sources and/or enhance anthropogenic removals by sinks shall address:

(a) Project duration;

(b) [Type of baseline used (i.e.]project-specific[, multi-project)];

(c) [Baseline methodology adopted (approved or new)][Based on good practice guidance];

(d) Permanence[3];

(e) Leakage;

(f) Additionality;

(g) Liability procedures in the case that [the emissions are not effectively reduced][or][the removals are not kept for a sufficient amount of time].]

77. [For all projects under 1 MW power equivalent, and all renewable energy projects under 5 MW capacity, project developers:

(a) May use a limited number of standardised baselines, which are based on an appropriate Annex I average;

(b) May use other provisions [established by the executive board] [approved by the COP/MOP].]

78. Several small-scale project activities of the same kind may be bundled so as to be subject to a single registration without losing their own project identity with respect to requirements for validation, verification and certification.

79. [Any project whose estimated emission reductions exceed [CCC] tonnes per year or [DDD] tonnes over its crediting period shall use a project-specific baseline.]

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[3] Proposal 4 of FCCC/SB/2000/ MISC 4/Add.1/Rev.1 may be further considered in this respect.

80. [Relevant national policies and circumstances, including, *inter alia*, sectoral reform initiatives, local fuel availability, [trends in land-use and land-use change,] power sector expansion plans, and the economic situation in the project sector, shall be considered in the development of a project baseline.]

81. [The baseline shall ensure that projects do not benefit from national policies [which do not contribute to the ultimate goal of the Convention] [and practices which encourage activities that lead to greater levels of anthropogenic emissions of greenhouse gases not controlled by the Montreal Protocol than would otherwise occur].]

82. [The project participants shall identify barriers which would explain why the CDM project activity cannot be considered as the baseline.]

83. Option 1: Project participants must select a crediting period for a proposed project activity using one of the following alternative approaches:

(a) A single crediting period, after which the project activity is not eligible to further accrue certified emission reductions. The baseline remains fixed throughout the crediting period. The crediting period is defined as the shorter of:

(i) The expected operational life of the project; or

(ii) Fifteen years [in the case of emission reduction project activities], [and [X] years in the case of project activities involving land-use change and forestry]; or

(b) A crediting period of [five] years may be renewable by the project participant, provided that the designated operational entity determines that the project activity continues to satisfy [the threshold and] baseline criteria based on updated data.

Option 2: The crediting period for a project is the period of validity of the baseline defined as the shortest of (a) the operational life of the project; (b) [five] [x] years, [15 years in the case of small scale renewable projects]; and (c) the period proposed by the project participants. The crediting period of a project may be extended by a validated review of the baseline. Factors in baseline determination that are subject to review at the end of the crediting period should be identified at the outset.

84. Any revision to approved baseline methodologies shall only be applicable to baselines registered subsequent to the date of revision and shall not affect existing registered projects activities during their crediting periods.

85. Anthropogenic reductions of emissions by sources [or enhanced anthropogenic removals by sinks] shall be adjusted for leakage in accordance with the verification provisions.

86. Leakage is defined as the [net] change of anthropogenic emissions by sources [or enhanced anthropogenic removals by sinks] outside the validated project boundary [at the national and sub-national level] that is measurable and attributable to the CDM project activity.

87. The validated project boundary is defined as all sources of anthropogenic emissions by sources[and/or enhanced anthropogenic removals by sinks] that are [within the control of the project participants and are] significant and reasonably attributable to the CDM project activity.

I. Monitoring

88. Project participants shall include, as part of the project design document, a monitoring plan that shall provide for:

(a) The collection and archiving of all relevant data necessary for estimating or measuring anthropogenic emissions by sources [and/or anthropogenic removals by sinks] of greenhouse gases occurring within the project boundary during the crediting lifetime;

(b) The collection and archiving of all relevant data necessary for determining baseline anthropogenic emissions by sources [and/or anthropogenic removals by sinks] within the project boundary during the crediting lifetime;

(c) An identification of all potential sources of increased anthropogenic greenhouse gas emissions by sources [and/or reduced anthropogenic removals by sinks] outside the project boundary that are significant and reasonably attributable to the project activity;

(d) The collection and archiving of all relevant data for the purpose of assessing leakage effects per subparagraph (c) above;

(e) [The collection and archiving of information relevant to the assessment of how the project contributes to sustainable development in the host country [such as environmental, economic, social and cultural impacts];]

(f) Quality assurance and control procedures of the monitoring;

(g) Procedures for periodic calculation of the reductions of anthropogenic emissions by sources [and/or enhanced anthropogenic removals by sinks] of greenhouse gases by the proposed CDM project activity, including leakage effects. The period shall not be less than one year;

(h) Documentation of all steps involved in the calculations referred to in subparagraph (g) above.

89. A monitoring plan shall be based on a monitoring methodology that:

(a) Has been previously approved by the [executive board][COP/MOP], provided that the designated operational entity determines that the methodology is appropriate to the circumstances of the proposed project activity and has been properly applied;

(b) Is an alternative methodology proposed for application to a particular project activity, provided that:

(i) The designated operational entity recommends to the executive board that the methodology is appropriate to the circumstances of the project activity and has been properly applied;

(ii) The [executive board][COP/MOP, based on a recommendation by the executive board] approves the methodology upon registration because the methodology is considered sufficiently rigorous to provide an accurate and reasonably certain calculation of anthropogenic emissions by sources [or

anthropogenic removals by sinks] or, where the methodology is not sufficiently rigorous to provide an accurate calculation, provide a more accurate and complete estimate of anthropogenic emissions by sources [or anthropogenic removals by sinks] that gives reasonable assurance that anthropogenic emissions by sources are not underestimated [or anthropogenic removals by sinks are not overestimated];

(c) [Reflects good monitoring practice, i.e. performance at least equivalent to the most cost-effective commercially applied monitoring methodologies appropriate to the circumstances.]

90. Project participants shall implement the monitoring plan contained in the registered project design document.

91. Revisions to the monitoring plan require justification by project participants that the revisions improve accuracy and/or completeness, shall be validated by a designated operational entity and shall be approved by the executive board.

92. The implementation of the registered monitoring plan, and its approved revisions as applicable, shall be a condition for verification, certification and the issuance of CERs.

93. The basis for the determination of CERs of a CDM project activity during a given period is the ex post calculation of baseline emissions less the actual anthropogenic emissions by sources less leakage [and/or actual anthropogenic removals by sinks less baseline removals by sinks less leakage], after the monitoring of emission reductions [and/or removals] have been reported.

94. The project participants shall provide to the designated operational entity contracted by the project participants performing the verification a monitoring report in accordance with the registered monitoring plan set out in paragraph 88.

J. Verification and certification

95. Verification is the periodic independent review and ex post determination by the designated operational entity of the monitored enhanced reductions in anthropogenic emissions by sources [and/or the monitored enhanced anthropogenic removals by sinks] of greenhouse gases that have occurred as a result of a registered project activity during the verification period. Certification is the written assurance by the designated operational entity that, during a specific time period, a project activity achieved the enhanced reductions of anthropogenic emissions by sources [and/or enhanced anthropogenic removals by sinks] of greenhouse gases as verified.

96. In accordance with the provisions on confidentiality in paragraph 5 (o) the designated operational entity contracted by the project participants performing the verification shall make publicly available the monitoring report and shall:

(a) [Receive comments from Parties, stakeholders, and UNFCCC accredited NGOs on elements relating to whether the verified emission reductions were achieved in accordance with the requirements of this annex for [30][60] days from the date the monitoring report is made publicly available, and take these comments into account in developing the verification report;]

(b) Determine whether the project documentation provided is in accordance with the requirements of the registered project design document and relevant provisions of decision [...] and the annex on modalities and procedures;

(c) Conduct on-site inspections, as appropriate, which may comprise, inter alia, a review of performance records, interviews with project participants and local stakeholders, collection of measurements, observation of established practices and testing of the accuracy of monitoring equipment;

(d) If appropriate, use additional data from other sources;

(e) Review monitoring results and verify that the monitoring methodologies for the estimation of reduced anthropogenic emissions by sources [or enhanced anthropogenic removals by sinks] have been applied correctly and their documentation is complete and transparent;

(f) Determine the enhanced reductions of anthropogenic emissions by sources [and/or enhanced anthropogenic removals by sinks] of greenhouse gases, based on the data and information used in (b) and obtained through (c) and/or (d), as appropriate, using calculation procedures consistent with those contained in the registered project design documents;

(g) Identify any concerns related to conformity of the actual project and its operation with the registered project design document. The designated operational entity shall inform the project participants of any such concerns. Project participants may address the concerns and supply any additional information;

(h) Recommend to the project participants appropriate changes to the monitoring methodology, if necessary;

(i) Provide a verification report to the project participants, the Parties involved and the executive board. The report shall be made publicly available.

97. The designated operational entity shall, based on its verification report and[, if all Parties [and private or public entities] involved were eligible to participate in the CDM during the period covered by the verification report,]certify in writing that, during the specific time period, the project activity achieved enhanced reductions of anthropogenic emissions by sources [and/or enhanced anthropogenic removals by sinks] of greenhouse gases, as verified. It shall inform the project participants, Parties involved and the executive board of its certification decision in writing immediately upon completion of the certification process and make the certification report publicly available.

K. Issuance of certified emission reductions

98. The certification report shall constitute a request for issuance of CERs equal to the enhanced reductions of anthropogenic emissions by sources [and/or enhanced anthropogenic removals by sinks] of greenhouse gases, as verified.

99. [The request for issuance shall be authorised by the executive board and be deemed final [30][60] days after the date of receipt by the executive board of the request for issuance, unless a Party involved in the project activity, or at least [x] members of the executive board request a review of the proposed CDM project activity. Such a request shall be made in accordance with the following provisions:

(a) Requests for reviews shall be limited to issues [associated with the verification and certification of CERs including issues] of fraud, malfeasance or incompetence of the designated operational entities;

(b) Upon receipt of a request for review in accordance with this paragraph, the executive board at its next meeting shall decide on its course of action. If the executive board decides that the request has merit it shall perform a review and decide whether the proposed issuance should be approved;

(c) The executive board shall complete its review within [90][30] days following its [receipt of a request for review][decision to perform the review].]

100. The executive board shall inform the project participants of the outcome of the review, and make it and the reasons for it public.

101. Upon receiving authorisation from the executive board to issue CERs for a CDM project activity, the system administrator working under the authority of the executive board shall:

(a) Assign each CER a unique serial number;

(b) Determine, in accordance with appendix C, and collect the share of proceeds to cover administrative costs and to assist in meeting costs of adaptation in accordance with Article 12.8 and [transfer][credit] them to the appropriate accounts;

(c) [Transfer][Credit] the remaining CERs to the registry account[s of project participants and Parties involved as specified by their distribution agreement, if applicable.][of participating Annex I Party]

[Appendix X (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

"Part of"/Supplementarity

1. Option 1: No elaboration of supplementarity.

Option 2: Parties included in Annex I shall meet their emission limitation and reduction commitments primarily through domestic action. [Use of the mechanisms pursuant to Articles 6, 12 and 17 by a Party included in Annex I shall be limited to a maximum of 30 per cent of the effort required to meet its commitment under Article 3. This ceiling may be reviewed periodically by the COP/MOP.] Compliance with this requirement will be assessed by the compliance committee on the basis of information submitted under Article 7.

Option 3: Net acquisitions by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed the higher of the following alternatives:

(a) [5][25] per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5');

(b) 50 per cent of the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5 and its assigned amount.

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

If a Party is a member of an Article 4 agreement to fulfil commitments jointly, the assigned amount is the assigned amount allocated to the Party under that agreement. Otherwise, it is the assigned amount for the Party as calculated in accordance with Article 3, paragraph 7.

[Issues related to Article 4]

2. [Any limitations on the transfer or acquisition of CERs under Article 12 shall apply to the allocation of emission levels under Article 4.]

3. [Any limitations on net transfers or acquisitions of CERs under Article 12 shall apply to each individual Party operating under Article 4.]

4. [Reallocations under Article 4 shall count against the limitations referred to in Options 2 - 3.]

Appendix A (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

Standards and procedures for the accreditation of operational entities

(Note: Further consideration of standards beyond those contained in this appendix may be required and a process identified.)

1. The accreditation standards shall address, *inter alia*,:

(a) Good expertise on certification procedures;

(b) Implementation of a system to demonstrate the application of certification procedures;

(c) A system for the control of all documentation relating to validation, verification and certification;

(d) A professional code of practice, appeal and complaints procedures;

(e) Relevant expertise and competence of a designated operational entity;

(f) Independence and absence of conflict of interest of a designated operational entity;

(g) [Insurance coverage of a designated operational entity].

2. An operational entity shall meet the following organizational requirements:

(a) Be a legal entity (either a domestic legal entity or an international organization) and provide documentation of this status to the [accreditation body];

(b) Employ a sufficient number of persons having the necessary competence to perform validation, verification and certification functions relating to the type, range and volume of work performed, under a responsible senior executive;

(c) Have the financial stability and resources required for its activities;

(d) Have sufficient arrangements to cover legal and financial liabilities arising from its activities;

(e) Have documented internal procedures for carrying out its functions including, among others, procedures for the allocation of responsibility within the organization and for handling complaints; these procedures shall be made publicly available;

(f) Have the necessary expertise to carry out the functions specified in this and relevant decisions by the COP/MOP, in particular have sufficient knowledge and understanding of:

(i) The modalities and procedures and guidelines for the operation of the CDM, relevant decisions of the COP and COP/MOP[, and guidance issued by the executive board];

(ii) Environmental issues relevant to validation, verification and certification of CDM projects;

(iii) The technical aspects of CDM activity relevant to environmental issues, including expertise in the setting of baselines and monitoring of emissions and other environmental impacts;

(iv) Relevant environmental auditing requirements and methodologies;

(v) [Sustainable development criteria and implementation];

(vi) Methodologies for accounting of anthropogenic GHG emissions by sources [and/or enhanced anthropogenic removals by sinks];

(vii) ...

(g) Have a management structure that has overall responsibility for performance and implementation of the entity's functions, including management reviews, and decisions on validation, verification and certification. The applicant operational entity shall make available to the accreditation body:

(i) The names, qualifications, experience and terms of reference of the senior executive, board members, senior officers and other personnel;

(ii) A structure chart showing lines of authority, responsibility and allocation of functions stemming from the senior executive;

(iii) Its policy and procedures for conducting management reviews;

(iv) Administrative procedures including documents control;

(v) Its policy and procedures for the recruitment and training of operational entity personnel, for ensuring their competence for validation, verification and certification functions, and for monitoring their performance;

(vi) Its procedures for handling complaints, appeals and disputes.

(h) Not have any judicial process pending for malpractice, fraud and/or other activity incompatible with its functions as a designated operational entity.

3. An applicant operational entity shall meet the following operational requirements:

(a) Work in a credible, independent, non-discriminatory and transparent manner complying with applicable national law meeting in particular the following requirements:

(i) An applicant operational entity shall have a documented structure, which safeguards impartiality, including provisions to ensure impartiality of its operations;

(ii) If it is part of a larger organization, and where parts of that organization are, or may become, involved in the identification, development or financing of any CDM project activity, the applicant operational entity shall:

- Make a declaration to the accreditation body of all the organization's actual and potential CDM activities, indicating which part of the organization is involved and in which particular CDM activities;

- Clearly define to the accreditation body the links with other parts of the organization, demonstrating that no conflicts of interest exist;

- Demonstrate to the [accreditation body] that no actual or potential conflict of interest exists between its functions as an operational entity and any other functions that it may have, and shall demonstrate how business is managed to minimize any identified risk to impartiality. The demonstration shall cover all potential sources of conflict of interest, whether they arise from within the operational entity or from the activities of related bodies;

- Demonstrate to the [accreditation body] that it, together with its senior executive and staff, is not involved in any commercial, financial and other processes which might influence its judgement or endanger trust in its independence of judgement and integrity in relation to its activities, and that it complies with any rules applicable in this respect;

- [Demonstrate to the accreditation body that it has policies and procedures for the resolution of complaints, appeals and disputes received from project participants or other parties about the handling of its activities and for receipt of comments in accordance with provisions contained in the annex on modalities and procedures];

(b) Have adequate arrangements to safeguard confidentiality of the information obtained from CDM project participants in accordance with provisions contained in the annex on modalities and procedures;

Appendix B (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

[UNFCCC clean development mechanism reference manual]

[The executive board shall maintain and make available in electronic and printed forms [a UNFCCC CDM reference manual consisting of] decisions of the COP/MOP[and the executive board] relating to, *inter alia*,:

(a) Baseline methodologies:

(i) Requirements for new baseline methodologies;

(ii) [Approved baseline methodologies];

(c) Option 1: Eligibility criteria:

(i) Additionality
[Approved thresholds];

(ii) [Types of projects];

(iii) Others;

Option 2: [Threshold methodologies:

(i) Requirements for new threshold methodologies;

(ii) [Approved threshold methodologies];]

(d) Monitoring:

(i) Requirements for new monitoring methodologies;

(ii) [Approved monitoring methodologies];

(e) Project design document (see also the annex to this appendix B);

(f) Requirements for designated operational entities.

Annex B ([UNFCCC CDM reference manual])

Project design document

1. A project activity shall be described in detail in a project design document and shall include the following:

(a) A short, objective, non-technical summary of the purpose and context of the project;

(b) A description of the project:

(i) Project purpose;

(ii) Contribution to sustainable development[, as defined in the host Party's national development plan][, as defined in Agenda 21 and the relevant multilateral environmental agreements];]

(iii) Technical description of the project and a description of the transfer of technology, including viability of technological choices;

(iv) Information regarding project location and its region;

(v) Brief description of the project boundaries (geo-referenced);

(vi) Key parameters affecting future developments relevant to the baseline as well as the CDM project activity;

(vii) [Socio-economic aspects and social actors involved in the project;]

(viii) [Influence of the project on the socio-economic situation of the host Party and/or in the specific region in which the project is implemented;

- Socio-economic impact of the project beyond its project boundaries, in the influence zone;

(c) Additional effects (indirect) of the execution and functioning of the project;]

(d) Proposed baseline methodology:

(i) Description of and justification for baseline determination;

(ii) Justification of proposed crediting period;

(iii) The estimated operational life of the project;

(iv) Any other information required to make fully transparent the application of the approved [multi-project] baseline to the specific project;

(v) Description of key parameters and assumptions used in the baseline estimate;

(vi) Description of the extent to which national policies influence the determination of the baseline

(vii) [Description of the [national] policies on the type of projects in the Party included in Annex I].];

(viii) Data sources to be used to calculate the baseline anthropogenic emissions by sources [and/or anthropogenic removals by sinks], such as historical data on anthropogenic emissions by sources [and/or anthropogenic removals by sinks], variables and parameters used;

(ix) Historical anthropogenic emissions by sources [and/or anthropogenic removals by sinks] for the activity, as appropriate;

(x) Projection of baseline emissions and emission reductions by year over the operational life of the project;

(xi) [Uncertainties (in a quantitative manner, as applicable):

- Data;
- Assumptions;
- Key factors;
- Other;]

(xii) How the [baseline methodology][project] addresses potential leakage beyond the project boundary [at the national and sub-national levels];

(xiii) In the case of a new baseline methodology, strengths and weaknesses of the proposed baseline methodology;

(xiv) [Positive and negative social, economic, environmental and cultural impacts related to the project;]

(e) [The executive summary of the environmental impact assessment [, including social impacts] as required under paragraph 49 (d) of the annex on modalities and procedures, if applicable;]

(f) [[For land-use, land-use change and forestry CDM project activities]:

(i) A proposed period of time during which carbon would remain sequestered;

(ii) Modalities to address the possibility that some or all carbon sequestered through the project is released before the time specified in subparagraph (i) has elapsed;

(iii) Modalities to address potential reversibility of carbon sequestration;]

(g) Economic and financial information:

(i) Sources of financing and evidence that the funding is additional;

(ii) [Financial and economic analysis (internal rate of return, reserve funds, financial flow)];

(iii) [Estimates of the costs of implementation and maintenance of the project over its projected lifetime];]

(h) Additionality: Explanation of how the project activity meets the CDM additionality requirements;

(i) Other information:

(i) Comments, observations and/or suggestions by local stakeholders and description of their involvement;

(ii) Contribution to other environmental agreements (e.g. biological diversity, desertification), as applicable;

(j) Monitoring plan:

(i) Relevant project performance indicators both within and outside the project boundary;

(ii) Data needed for the project performance indicators and assessment of data quality;

(iii) Methodologies to be used for data collection and monitoring;

(iv) Assessment of the accuracy, comparability, completeness and validity of the proposed monitoring methodology;

(v) Quality assurance and quality control provisions for the monitoring methodology, recording and reporting;

(vi) Description of how monitored data will be used to calculate the emissions reduced [or removed];

(k) Proposed formula for the calculation of the emissions reduced [or removed]:

(i) Anthropogenic emissions by sources [and enhancements of anthropogenic removals] that are significant and reasonably attributable to the project activity within the project boundary;

(ii) Anthropogenic emissions by sources [and enhancements of anthropogenic removals] that are [significant and] reasonably attributable to the project activity outside the project boundary and within the geographic area of the reference scenario;

(iii) The total anthropogenic emissions by sources [and enhancements of anthropogenic removals] from subparagraphs (k) (i) and (ii) above;

(iv) Comparison of the total anthropogenic emissions by sources [and enhancements of anthropogenic removals] attributable to the project activity calculated using the approved methodology within the geographic area of the reference scenario to the appropriate baseline;

(v) Any additional factor required by the executive board to account for changes in anthropogenic emissions by sources [and enhancements of anthropogenic removals] that are [significant and] reasonably attributable to the project activity but outside the geographic area of the reference scenario;

(vi) Emissions reduced during the specified period;

(l) References.

Appendix C (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

Determination and allocation of the share of proceeds

1. The share of proceeds is defined as [x][10] per cent of the number of CERs issued for a CDM project activity.

2. The executive board shall auction and convert any CERs into currency through an open competitive public process and deposit the respective funds to the adaptation fund account and administrative expenses account.

3. [The [COP] [COP/MOP] shall adopt the budget to cover the administrative expenses of the executive board on a biennial basis. The equivalent amount shall be derived from the share of proceeds and shall be deposited to an account maintained for this purpose by the secretariat. The [COP] [COP/MOP] shall [ensure that the administrative budget will not be more than 10 per cent of the share of proceeds] [strive to maintain the administrative budget within a maximum of 10 per cent of the amount of the share of proceeds]. The remaining [amount, which shall not be less than 90 per cent of the share of proceeds,] [[90 per cent] [amount] of the share of proceeds] shall be devoted to assisting Parties not included in Annex I that are particularly vulnerable to the adverse effects of climate change, in particular least developed countries and small island developing States amongst them, [and/or to the impacts of the implementation of response measures] to meet the costs of adaptation and shall be transferred to an account maintained for this purpose by the adaptation fund [established by the COP/MOP] [referred in the relevant provisions].]

4. The share of proceeds contained in paragraph 1 above shall be waived on CDM project activities taking place in least developed country [and small island developing States] Parties.

Appendix D (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

Decision X/[CP.6][CMP.1] on an adaptation fund

The Conference of the Parties [serving as the meeting of the Parties the Kyoto Protocol],

Noting Article 10, subparagraph (b) of the Kyoto Protocol,

Recalling Article 12, paragraph 8 of the Kyoto Protocol,

Recalling [its] decisions 11/CP.1 and 2/CP.4 [of the Conference of the Parties],

1. *Decides* to establish an adaptation fund[4] to distribute financial assistance to adaptation projects and measures from the share of proceeds from project activities under [Article 6[5] and] the clean development mechanism [and from transactions under Article 17] to be used to assist developing country Parties not included in Annex I[6] that are particularly vulnerable to the adverse effects of climate change, in particular least developed country Parties and small island developing States amongst them, to meet the costs of adaptation;

2. *Decides* that the adaptation fund shall be managed by [the secretariat] [United Nations Development Programme] [United Nations Environment Programme] [an existing institution][the entity entrusted with the operation of the financial mechanism of the Convention] under the guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol [and utilizing disbursement procedures and timetables adopted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session];

3. *Decides* that the entity entrusted with the operation of the adaptation fund referred to in paragraph 2 shall submit an annual audited report of all assets and liabilities of the adaptation fund for consideration by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;

4. *Decides* that Parties not included in Annex I shall identify adaptation projects for funding, following a process of adaptation project identification and submit requests for financial assistance to the adaptation fund;

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[4] [An adaptation fund shall be established to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change, in particular the least developed countries and small island developing States amongst them, and/or to the impact of the implementation of response measures, under Articles 6 and 17, to meet the costs of adaptation.]

[5] 'Article' means an article of the Kyoto Protocol, unless otherwise indicated.

[6] 'Party' means a Party to the Kyoto Protocol, unless otherwise indicated.

5. *Decides* that adaptation projects and measures receiving financial assistance from the adaptation fund shall:

(a) Be country-driven;

(b) Be in conformity with national regulations, strategies and priorities for the sustainable development of the Party concerned and address the specific vulnerabilities in the context of Party's national communications or its national plans;

(c) [Be subject to environmental impact assessment based on an established methodology if total project investments exceeds 5 million US dollars].

(d) Demonstrate that local stakeholder concerns have been taken into account.

(e) Be formulated taking account of decision 11/CP.1, paragraph 1 (d) (i) and (ii) (FCCC/CP/1995/7/Add.1);

(f) Be implemented in a cost-effective manner;

6. Decides that the Parties implementing adaptation projects and measures be accountable to the institution entrusted with the management of the adaptation fund subject to the guidance provided by the COP/MOP.

7. [*Decides* that adaptation projects aiming at maintaining the carbon stocks of forests and soils may receive financial assistance from the adaptation fund. Subject to paragraphs 5 above and 7 below, these projects shall be guided by information from national communications of Parties not included in Annex I, and be limited to the following activities:

(a) [Conservation of natural forests];

(b) [Rehabilitation of degraded vegetation cover;]

(c) [Protection of endangered protected areas.]

(d) [Rehabilitation of degraded land];]

8. *Decides* that adaptation projects and measures receiving financial assistance from the adaptation fund shall be selected in accordance with rules to be established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.

9. [The COP/MOP or the institution entrusted with the management of the adaptation fund may decide on additional requirements as appropriate.]

10. [A Party requesting funding for an adaptation project shall demonstrate a direct linkage between the damage or problem they are trying to address and climate change].]

Appendix E (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

Registry for Parties not included in Annex I

1. The executive board shall establish and maintain a registry for Parties not included in Annex I to ensure the accurate accounting of the issuance of CERs [and the holding, transfer and acquisition of CERs by Parties not included in Annex I]. The executive board shall establish a registry administrator to maintain the registry under its authority.

(Note: If sinks are eligible under the CDM, consideration may need to be given to a cancellation function in the registry for Parties not included in Annex I or expiry dates for CERs to address issues of permanence.)

2. The registry shall be in the form of a standardized electronic database which contains, *inter alia*, common data elements relevant to the issuance of CERs[and the holding, transfer and acquisition of CERs by Parties not included in Annex I]. The design and format of the registry for Parties not included in Annex I shall conform to further guidelines for the implementation of decision [-/CMP.1] to be adopted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP).

3. The executive board shall establish an account or accounts in the registry for each Party not included in Annex I hosting a CDM project activity. An account or accounts shall also be established in the registry for the purpose of holding and managing the share of proceeds, including in relation to administrative expenses and the adaptation fund.

4. Each account within the registry shall have a unique account number comprising the following elements:

(a) Party identifier: this shall identify the Party not included in Annex I and shall use the two-letter country code defined by the International Organization for Standardization (ISO 3166) or, in the case of accounts for holding and managing the share of proceeds, shall identify the executive board, adaptation fund or another institution, as appropriate;

(b) A unique number: this shall identify the account using a number unique to the account for the Party identifier.

5. Upon receipt of the certification report from a designated operational entity, the registry administrator shall:

(a) Issue CERs amounting to the assessed share of proceeds from the CDM project activity into an account or accounts in the registry for holding and managing the share of proceeds;

(b) Issue CERs the remaining CERs from the CDM project activity into the account or accounts of the project participants and Parties specified in their distribution agreement.

6. Each CER shall have a unique serial number comprising the following elements:

(a) Commitment period: this shall identify the commitment period for which the CER is issued;

(b) Party of origin: this shall identify the Party not included in Annex I which hosted the CDM project activity and shall use the two-letter country code defined by the International Organization for Standardization (ISO 3166);

(c) Type: this shall identify the unit as a CER;

(d) A unique number: this shall identify the CER using a number unique to the CER for the identified commitment period and Party of origin. Serial numbers shall be stored in blocks by starting and ending numbers. For single CERs, the starting and ending number shall be the same;

(e) Project identifier: this shall identify the specific CDM project activity for which the CERs are issued, using a number unique to the CDM project activity for the Party of origin.

7. The registry shall record, and make available through a user-friendly, publicly accessible interface, the following information for all CDM project activities, identified by the project identifier, for which the registry has issued CERs:

(a) Project name: this shall identify the CDM project activity by a unique name;

(b) Project location: this shall identify the Party and town or region in which the CDM project activity is located;

(c) Years of CER issuance: this shall identify the years in which CERs are issued as a result of each CDM project activity;

(d) Operational entities: this shall identify the operational entities involved in the validation, verification and certification of the CDM project activity;

(e) Reports: this shall include downloadable electronic versions of [project design documents, validation reports, notifications of registration, monitoring reports, verification reports, notifications of certification and notifications of issuance of CERs] relating to each CDM project activity.

8. The registry shall provide a user-friendly, publicly accessible user interface that allows interested persons to query and view non-confidential information contained in the registry, including, *inter alia*, the following information for each account, by account number:

(a) Account name: this shall identify the holder of the account;

(b) Representative identifier: this shall identify the representative of the account holder, using the Party identifier (the two-letter country code defined by the International Organization for Standardization (ISO 3166)) and a number unique to that representative within the Party's registry;

(c) Representative name and contact information: this shall identify the full name, mailing address, telephone number, facsimile number and email address of the representative of the account holder;

(d) CERs issued into accounts, by serial number;

(e) CERs transferred and the identity of the acquiring accounts and national registries, by serial number;

(f) Current holdings of CERs, by serial number.

[Annex to decision [B/CP.6]

TERMS OF REFERENCE FOR THE ESTABLISHMENT OF GUIDELINES ON BASELINES

[The Intergovernmental Panel on Climate Change] [Experts selected from the roster of experts[, taking into account considerations of regional balance,] and guided by the [Subsidiary Body for Scientific and Technological Advice][executive board]], in preparing guidelines for baseline setting for clean development mechanism projects, shall be guided *inter alia* by the following terms of reference:

1. The objective of the guidelines on baseline setting is to provide guidance for the establishment of methodologies for baseline setting for project-based activities to:

(a) Harmonize, further elaborate, extend and make consistent all baseline methodologies, as approved by the executive board and contained in all baseline-related sections of the annex on modalities and procedures for a clean development fund;

(b) Enable project developers to develop baselines in an objective, transparent and reliable manner;

(c) Provide guidance for designated operational entities to check baselines in a consistent and transparent manner.

2. Guidance should be provided in the following areas:

(a) Definition of mutually exclusive project categories (e.g. based on sector, technology and geographic area), which show common methodological characteristics for baseline setting;

(b) Methodologies which are most likely to deliver the most accurate baseline. For the project categories identified, methodological guidance should cover project-specific and multi-project baselines, including guidance on the level of aggregation, taking into account data availability, geographic areas and data availability;

(c) Decision trees and other methodological tools, where appropriate, to guide the methodological choice in order to achieve the most realistic and most likely scenario, taking into account the dynamics of future developments;

(d) Possible level of standardization of the methodologies, while maintaining good accuracy. Standardized parameters should be compiled wherever possible and appropriate. Standardization should be conservative in order to prevent any overestimation of emission reductions accruing from projects under a highly standardized baseline;

(e) Determination of project boundaries, including greenhouse gases to be included in the project boundaries. [Relevance of leakage and recommendations for the setting of appropriate project boundaries and indicators allowing for the ex post evaluation of the level of leakage;]

(f) Crediting lifetime of a project;

(g) Choice of data (international, default, national) and data collection including indicators to be measured, advice on estimation and treatment of uncertainties;

(h) [Incorporation of relevant national policies and specific national or regional circumstances, including, *inter alia*, sectoral reform initiatives, local fuel availability, power sector expansion plans, and the economic situation in the project sector.]]

[Annex to decision [B/CP.6]

MEMBERS OF THE [INTERIM] EXECUTIVE BOARD

C. ARTICLE 17 OF THE KYOTO PROTOCOL

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(Note: The text of this decision is from document FCCC/SB/2000/10/Add.3.)

[Draft decision [C/CP.6]: Principles, modalities, rules and guidelines for emissions trading

The Conference of the Parties,

Recalling its decision 1/CP.3, in particular paragraph 5 (b) of that decision,

Recalling also its decisions 7/CP.4 and 14/CP.5,

Taking into account Articles 4 and 12 of the Convention and Articles [3 and 17] [2, 3, 4, 5, 7, 11, 17 and 18] of the Kyoto Protocol, [and reflecting provisions contained in appendix X to the annex to this decision],

Bearing in mind Articles 3 and 17 of the Kyoto Protocol, in accordance with which, any part of an assigned amount which a Party included in Annex B to the Kyoto Protocol transfers to another Party included in Annex B to the Kyoto Protocol shall be subtracted from the assigned amount for the transferring Party, and any part of an assigned amount which such Party acquires from another Party shall be added to the assigned amount for the acquiring Party, keeping in view that any such transfers and acquisitions are only for the purpose of contributing to the achievement of compliance with the quantified emission limitation and reduction commitments in Article 3 of the Kyoto Protocol without altering the assigned amount of the Parties pursuant to their quantified emission limitation and reduction commitments inscribed in Annex B,

Recognizing that the Kyoto Protocol has not created or bestowed on Parties included in Annex I to the Convention and in Annex B to the Protocol any right, title or entitlement to emissions of any kind in the pursuance of Articles 6, 12 and 17 of the Kyoto Protocol and further recognizing that emissions trading under Article 17 is only for the accounting of transfers and acquisitions of parts of assigned amounts for the purpose of fulfilling commitments under Article 3,

Further recognizing that emissions trading under Article 17 is only for the accounting of transfers and acquisitions of parts of assigned amounts for the purpose of fulfilling commitments under Article 3,

Affirming that, in their actions to achieve the purpose of emissions trading, the Parties included in Annex B to the Kyoto Protocol shall be guided by Article 2 of the Convention and the principles contained in Article 3 of the Convention and, inter alia, the following considerations:

[Equity between developed and developing countries relates to equitable per capita emission entitlements for developing country Parties, keeping in view that per capita emissions in developing countries are still relatively low and that the share of global emissions originating in developing countries will grow to meet their social and development needs, taking fully into account that economic and social development and poverty eradication are the first and overriding priorities of such Parties, while affirming that developed country Parties shall continue to limit and reduce their emissions with the aim of attaining lower levels of emissions

through domestic policies and measures with a view to reducing per capita inequities in emissions between developed and developing country Parties;

[Recognizing that the Protocol has not created or bestowed any right, title or entitlement to the Parties included in Annex I to the Convention and in Annex B to the Kyoto Protocol and that it has not created an international market system or regime for emissions trading;]

[Emissions trading is only for accounting of transfers and acquisitions of parts of assigned amounts between Parties included in Annex B to the Kyoto Protocol for fulfilling their commitments under Article 3 of the Kyoto Protocol;]

Transparency;

[Climate change effectiveness: Real, measurable and long-term benefits related to the mitigation of climate change shall be achieved.] [Overall emission reductions must not be lower than would otherwise be the case;]

[Special situations of developing country Parties that are particularly vulnerable to the adverse effects of climate change and impacts of mitigation activities: emissions trading should be implemented in such a way as to minimize adverse social, environmental and economic impacts on developing country Parties, particularly those identified in Article 4, paragraphs 8 and 9, of the Convention;]

[Fungibility/non-fungibility: Parties [may][shall][not] exchange emission reduction units[, certified emission reductions] and [assigned amount units] [parts of assigned amount] [in accordance with rules and procedures established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol to ensure their effective environmental equivalence.]

1. *Adopts*, in accordance with these principles, the modalities, rules and guidelines, in particular for verification, reporting and accountability for emissions trading contained in the annex to this decision;

2. *[Decides* that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol shall have the authority to accept or reject acquisitions and transfers of parts of assigned amount that have been reported by the Parties participating in emissions trading;]

3. *Urges* the Parties included in Annex I to facilitate the participation in emissions trading of Parties included in Annex B undergoing the process of transition to a market economy;

4. *[Decides also* that a share of proceeds, in accordance with provisions in the annex to this decision, to be used in accordance with Article 12 paragraph 8, of the Kyoto Protocol, shall be applied to transactions under Article 17 of the Kyoto Protocol and shall be [x per cent of y], of which [no more than z per cent] shall be allocated to administrative expenses and [no less than 100-z per cent] to the adaptation fund[1]. The share of proceeds for assisting in meeting adaptation

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[1] An adaptation fund shall be established to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change, in particular least developed countries and the small island developing States

costs shall be additional to financing by Parties included in Annex I of adaptation activities under other provisions of the Convention and the Protocol;]

5. *Further decides* that any future revision of the modalities, rules and guidelines in the annex shall [be made by consensus and shall] take into account the experience of Parties to the Protocol, bearing in mind that:

(a) The first review shall be carried out no later than one year after the completion of the first additional period for fulfilling commitments[2];

(b) Further reviews shall be carried out [periodically thereafter] [at three-year intervals or upon the request of ...].

6. *Requests* [the secretariat of the Convention] to perform functions assigned to it as contained in this decision and its annex[3].

7. [*Resolves* to take decisions [, at its __ session,] to:

(c) Define the roles of verification and auditing entities, including private sector entities;

(d) Issue guidelines on national allocation and accountability procedures for legal entities;

(e) Track the potential for distortion of competition and include standard checks in the guidelines.]]

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amongst them, and/or developing country Parties that are particularly vulnerable to the impact of the implementation of response measures, under Articles 6 and 17, to meet the costs of adaptation.

[2] As defined in the procedures and mechanisms on compliance.

[3] The resource implications of this operative paragraph will need to be specified.

Annex

MODALITIES, RULES AND GUIDELINES FOR EMISSIONS TRADING

[Definitions

For the purpose of this Annex:

(a) "Party" means, unless the context otherwise indicates, a Party to the Protocol.

(b) "Protocol" means the Kyoto Protocol to the United Nations Framework Convention on Climate Change, as adopted on 11 December 1997.

(c) "Party included in Annex I" means a Party included in Annex I to the Convention, as may be amended, or a Party which has made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol.

(d) "Party not included in Annex I" means a Party not included in Annex I to the Convention, as may be amended, and which has not made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol.

(e) "Article" means an Article of the Protocol, unless otherwise indicated;

(f) ["Assigned amount units" or "AAUs"] ["Parts of assigned amount" or "PAAs] are [serialized parts of the assigned amount of a Party included in Annex B] [units calculated pursuant to Article 3, paragraphs [3, 4,] 7 and 8].

(g) "Emissions reduction units" or "ERUs" are units [issued] [transferred] pursuant to Article 6 and requirements thereunder;

(h) "Certified emissions reductions" or "CERs" are units issued pursuant to Article 12 and requirements thereunder;

(i) [AAUs][PAAs], ERUs and CERs are units each equal to one tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;

(j) ["Assigned amount" includes [AAUs][PAAs], ERUs, and CERs.]]

(Note: Paras. 1 and 3 below refer to requirements for ***eligibility of Parties included in Annex I****. These paras. may have linkages with decisions --/CP.6 establishing procedures and mechanisms on compliance.)*

Option 1: para. 1

1. A Party included in Annex I may [transfer and] acquire parts of assigned amount under the provisions of Article 17 if the Compliance Committee has decided that the Party has demonstrated that it has met the eligibility requirements in paragraph 3 (g) [(h)] [(i)] [(j)] [(k)] [(l)] below.

Option 2: para. 2

2. A Party included in Annex I may:

(a) Transfer and acquire any part of an assigned amount under the provisions of Article 17 after [XX[4]] months have elapsed since the submission of a report to the secretariat documenting that it meets the requirements in subparagraphs (b) through (e) [and (g) through [(i)][(l)]] of paragraph 3, unless the Compliance Committee has found that it has not met one or more of such requirements;

(b) Transfer and acquire any part of an assigned amount under the provisions of Article 17 at an earlier date if the enforcement branch of the Compliance Committee has notified the secretariat that it is not proceeding with any question of implementation relating to the requirements in subparagraphs (b) through (e) [and (g) through [(i)][(l)]] of paragraph 3;

(c) A Party may continue to participate in emissions trading, unless and until the Compliance Committee has found that it has not met one or more of the requirements in subparagraphs (b) through (f) [and (g) through [(i)][(l)]] of paragraph 3. If the Compliance Committee has found that a Party does not meet one or more of such requirements, the Party may acquire only if and when the Compliance Committee finds that the Party meets such requirements and therefore reinstates its eligibility to acquire.

3. In order to meet the eligibility requirements referred to in paragraph [1] [2], a Party shall:

Option 1: *This option relates to sub-paragraph (a)*

(a) Be in compliance with its commitments under Articles [3,]5 and 7 of the Protocol and the requirements set out in the guidelines decided thereunder, including the submission of the last available annual greenhouse gas inventory and greenhouse gas inventory report and the provisions on registries as defined in [...];

Option 2: *This option relates to sub-paragraphs (b) through (f)*

(b) Have in place, by the time a report is submitted pursuant to paragraph 2 (a) and thereafter, a national system for the estimation of anthropogenic emissions by sources and removals by sinks of all greenhouse gases not controlled by the Montreal Protocol, in accordance with Article 5.1 and the requirements in the guidelines decided thereunder;

(c) Have in place, by the time a report is submitted pursuant to paragraph 2 (a) and thereafter, a computerized national registry to account for and track [all changes in its assigned amount] [[ERUs, CERs and [AAUs] [PAAs] transferred or acquired] under the provisions in Article 3, paragraphs 10, 11 and 12], in accordance with Article 7.4 and the requirements in the guidelines decided thereunder;

(d) Have established, by the time a report is submitted pursuant to paragraph 2 (a), its [initial] assigned amount, in accordance with Article 7.4 and the requirements in the guidelines decided thereunder;

(e) Have submitted, in the report described in paragraph 2 (a), one annual inventory for the relevant recent year, [of anthropogenic emissions by sources [and removals by sinks] of greenhouse gases not controlled by the Montreal Protocol] in accordance with the provisions of

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[4] A specified time period sufficient to allow the Article 8 expert review teams and the enforcement branch of the Compliance Committee a reasonable opportunity to identify and rule upon any problems.

Articles 5.2 and 7.1 and the requirements in the guidelines decided thereunder [pertaining to Annex A gases and sources], other than those relating to the deadline for the first submission;

(f) Have subsequently submitted for each year following the submission of the report described in paragraph 2 (a), annual reports [information on its assigned amount], in accordance with Article 7.1 and the requirements in the guidelines decided thereunder, and annual inventories, in accordance with Articles 5.2 and 7.1 and the requirements in the guidelines decided thereunder [pertaining to Annex A gases and sources];

(Note: The following sub-paras (g) through (l) could form part of option 1 or option 2.)

(g) [Have ratified the Protocol];

(h) [Be bound by the procedures and mechanisms on compliance adopted by the COP/MOP;]

(i) [Have submitted the last required [all] periodic national communication[s] in accordance with Article 7.2 and in the guidelines decided thereunder.]

(j) [Have not been excluded from participation in the CDM [according to its procedures and mechanisms] [, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17] [and in accordance with relevant provisions under the Protocol];]

(k) [Have submitted the last required information on net changes in greenhouse gas emissions by sources and removals by sinks resulting from direct human induced activities in conformity with the requirements under Article 3.3 and 3.4, in accordance with the relevant decisions by the COP and the COP/MOP; and]

(l) [Have achieved sufficient emission reductions through domestic [action] [policies and measures][in accordance with appendix X].

*(Note: The following paras. refer to **participation**.)*

4. Option 1: (a) A Party included in Annex B authorizing any legal entity subject to its jurisdiction to participate in international emissions trading shall establish and maintain a domestic system for accurate monitoring of greenhouse gas emissions of all relevant authorized legal entities.

(b) A Party included in Annex B authorizing any legal entity subject to its jurisdiction to participate in emissions trading under Article 17 shall remain responsible for the fulfilment of its obligations under the Protocol and shall ensure that such participation is consistent with this annex. Legal entities may not participate in emissions trading under Article 17 during any period of time in which the authorizing Party is ineligible according to the provisions of paragraphs 1 to 3 above.

Option 2: *(This options consists of para. (b) above.)*

Option 3: Transfers and acquisitions of PAAs shall take place between Parties included in Annex B.

5. [A Party included in Annex B authorizing any legal entity to participate in emissions trading under Article 17 shall maintain an up-to-date list of such entities and make it available to the secretariat and the public.]

*(Note: The following para. refers to **modalities of operation**.)*

6. Option 1: Transfers and acquisitions of [ERUs,] [CERs] and [PAAs] [AAUs] may take place through bilateral and multilateral arrangements and market exchanges.

Option 2: Transfers and acquisitions of [ERUs] [, CERs] and [AAUs] [PAAs] shall take place through an open and transparent exchange if more than [x] million tonnes are transferred by a Party [or legal entity] during a one year period. This provision shall not apply to transfers of [AAUs] [PAAs] of less than [y] million tonnes of carbon.

Option 3: Transfers and acquisitions of [AAUs] [PAAs] shall take place through bilateral arrangements between Parties included in Annex B. A Party included in Annex B wishing to transfer or acquire PAAs may publish the amount to be transferred prior to the transfer.

*(The following para. refers to the **share of proceeds**.)*

7. [A share of proceeds shall be transferred by the [transferring][acquiring] Party to the appropriate account in accordance with appendix B.]

*(The following para. refers to **issues related to compliance**.)*

8. Option 1: Originating Party liability: A Party included in Annex B whose actual emissions for the commitment period, after the additional period for fulfilling commitments referred to in the procedures and mechanisms on compliance, exceed the ERUs, CERs and [AAUs] [PAAs] it has retired for compliance purposes, shall be subject to the provisions of the procedures and mechanisms on compliance adopted by the COP/MOP.

Option 2: Commitment period reserve:

(a) At the beginning of each commitment period, each Party included in Annex B shall place a portion of its assigned amount in a reserve account specific to that commitment period in its national registry. This portion shall be either [x] per cent of its assigned amount, or the portion determined in accordance with sub-paragraph (b) below, whichever is the lower.

(b) Option (i): The portion shall be determined by projecting the Party's emissions for the commitment period using a straight line, fitted by least-squares regression analysis, to the Party's emissions for the seven most recent years, as reviewed pursuant to Article 8.

Option (ii): Subject to sub-paragraph (c) below, the portion shall be equal to five times the Party's emissions during the most recent year for which emissions data, as reviewed pursuant to Article 8, are available.

(c) After each annual review of the Party's emissions data pursuant to Article 8, the portion of assigned amount in the reserve account shall be recalculated. The recalculated portion shall be equal to the sum of the emissions during each year of the commitment period for which

these data are available plus, for each remaining year of that commitment period, an amount equal to the emissions in the most recent year for which these data are available.

(d) If the recalculation under sub-paragraph (c) above results in a portion which is smaller than the portion in the Party's commitment period reserve account, a number of [AAUs] [PAAs] corresponding to the difference may be transferred out of the reserve account. If the recalculation results in a portion which is larger than the portion in the Party's commitment period reserve account, the Party shall transfer a number of [AAUs] [PAAs], ERUs or CERs corresponding to the difference into the reserve account before it is allowed to transfer any [AAUs] [PAAs], ERUs or CERs out of its national registry.

(e) The calculation of the commitment period reserve account and revisions thereto shall be reported in accordance with Article 7.

(f) Except as provided in sub-paragraph (d) above, [AAUs] [PAAs], ERUs or CERs held in a commitment period reserve account [may not be transferred and may only be used to establish a Party's compliance with its commitments under Article 3, paragraph 1] [may only be transferred into a Party's retirement account].

Option 3: Units in surplus to plan:

(a) Prior to the start of the commitment period, a Party included in Annex B that wishes to transfer [AAUs] [PAAs] under Article 17 shall allocate a portion of between 15 and 25 per cent of its total assigned amount to each year of the commitment period, and shall notify the secretariat of these allocations.

(b) In the first year of the commitment period, the Party shall calculate the difference between the portion allocated to 2008 and its emissions in 2006, as reviewed pursuant to Article 8. The secretariat shall verify this calculation and issue certificates for the difference. All issued certificates shall be valid on the market without any liability or trade-specific compliance rules.

(c) In each subsequent year, the Party shall add together the portions it has allocated to each year of the commitment period, up to and including the current year. It shall deduct the sum of its emissions, as reviewed pursuant to Article 8, for a equal number of years beginning in 2006. It shall also deduct the amount of [AAU] [PAA] certificates issued to it for previous years of the commitment period, and the amount of ERUs which it has transferred under Article 6. The secretariat shall verify this calculations and issue certificates for the difference. All issued certificates shall be valid on the market without any liability or trade-specific compliance rules.

(d) A Party may re-allocate portions for future years of the commitment period, and shall notify the secretariat of any such re-allocation.

Option 4: Surplus units: Only excess reductions may be transferred and acquired under Article 17, after the adjustments taking into account the transfers of ERUs and CERs. The assigned amount is the emission reduction commitment of a developed country Party. A Party included in Annex I to the Convention and in Annex B may transfer a part of its assigned amount to another such Party under Article 17 if that Party, in the achievement of its quantified emission limitation and reduction commitment under Article 3, has been able to limit or reduce its

greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment, thereby resulting in a part of the assigned amount of emissions not being used. Nothing else can be transferred and acquired under Article 17.

Option 5: Mixed liability: If a Party included in Annex B which has transferred parts of an assigned amount to another Party under the provisions of Article 17 is found to be in non-compliance with its commitments under Article 3, a portion of the transferred parts of assigned amount corresponding to the amount by which the emissions of the transferring Party exceeded its assigned amount and determined in the reverse chronological order of the original transfer (last in, first out), shall be temporarily invalidated and cannot be used for the purpose of meeting commitments under Article 3.1 for the period during which these parts of assigned amount were issued. The transferring Party remains liable for the entirety of its excess emissions and shall face the consequences provided for the breach of commitments under Article 3 under the procedures and mechanisms on compliance. The invalidated parts of assigned amount may be banked by the acquiring Party under the provisions of Article 3.13 but may not be used for the purpose of meeting commitments under Article 3.1 until the Compliance Committee deems the transferring Party to have fulfilled any requirement resulting from the breach of commitments identified above.

9. [The secretariat of the Convention] shall perform functions as requested by Parties and, in particular, shall maintain a publicly accessible list of Parties included in Annex B [and legal entities] that are ineligible to participate in emissions trading under Article 17.

[Appendix X (to the annex to decision [C/CP.6] on emissions trading)

"Part of"/Supplementarity

1. Option 1: No elaboration of supplementarity.

Option 2: Parties included in Annex I shall meet their emission limitation and reduction commitments primarily through domestic action. [Use of the mechanisms pursuant to Articles 6, 12 and 17 by a Party included in Annex I shall be limited to a maximum of 30 per cent of the effort required to meet its commitment under Article 3. This ceiling may be reviewed periodically by the COP/MOP.] Compliance with this requirement will be assessed by the compliance committee on the basis of information submitted under Article 7.

Option 3: Net acquisitions by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed the higher of the following alternatives:

(a) [5][25] per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5');

(b) 50 per cent of the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5 and its assigned amount.

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

If a Party is a member of an Article 4 agreement to fulfil commitments jointly, the assigned amount is the assigned amount allocated to the Party under that agreement. Otherwise, it is the assigned amount for the Party as calculated in accordance with Article 3, paragraph 7.

[Issues related to Article 4]

2. [Any limitations on the transfer or acquisition of CERs under Article 12 shall apply to the allocation of emission levels under Article 4.]

3. [Any limitations on net transfers or acquisitions of CERs under Article 12 shall apply to each individual Party operating under Article 4.]

4. [Reallocations under Article 4 shall count against the limitations referred to in Options 2 - 3.]

Appendix A (to the annex to decision [C/CP.6] on Article 17)

Determination and allocation of the share of proceeds

Option 1: No share of proceeds

Option 2:

1. The share of proceeds is defined as [x] [10] per cent of the initial transfer of [AAUs] [PAAs] from the registry into which they were issued.

2. The executive board shall auction and convert any [AAUs] [PAAs] into currency through an open competitive public process and deposit the respective funds to the adaptation fund account and administrative expenses account.

3. [The [COP] [COP/MOP] shall adopt the budget to cover the administrative expenses of the executive board on a biennial basis. The equivalent amount shall be derived from the share of proceeds and shall be deposited to an account maintained for this purpose by the secretariat. The [COP] [COP/MOP] shall [ensure that the administrative budget will not be more than 10 per cent of the share of proceeds] [strive to maintain the administrative budget within a maximum of 10 per cent of the amount of the share of proceeds]. The remaining [amount, which shall not be less than 90 per cent of the share of proceeds,] [[90 per cent] [amount] of the share of proceeds] shall be devoted to assisting Parties not included in Annex I that are particularly vulnerable to the adverse effects of climate change, in particular least developed countries and small island developing States amongst them, [and/or to the impacts of the implementation of response measures] to meet the costs of adaptation and shall be transferred to an account maintained for this purpose by the adaptation fund [established by the COP/MOP] [referred in the relevant provisions].]

D. REGISTRIES

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Decision [D/CP.6]: Rules and guidelines for registries

The Conference of the Parties,

Recalling its decision 7/CP.4 on a work programme on mechanisms,

1. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its first session, adopt the attached decision;

2. *Requests* the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation to prepare further guidelines for the implementation of the decision recommended in paragraph 1 to ensure the compatibility of the design and format of national registries and the clean development mechanism registry, for adoption by the Conference of the Parties serving as the meeting of Parties to the Kyoto Protocol at its first session.

Decision [-/CMP.1]

Rules and guidelines for registries

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

[Bearing in mind] [Noting] Article 3, paragraphs 3, 4, 5, 7, 8, 10, 11, 12 and 13, of the Kyoto Protocol,

Bearing in mind also decision 9/CP.4 of the Conference of the Parties,

Affirming that activities pursuant to Articles 6, 12 and 17 of the Kyoto Protocol must be subject to accurate and verifiable systems of accounting,

Having considered decision [D/CP.6] of the Conference of the Parties,

1. *Decides* to adopt the rules and guidelines for registries contained in the annex to this decision and any further guidelines for its implementation;

2. *Requests* the secretariat of the Convention to perform functions assigned to it, as contained in this decision and in any further guidelines for its implementation[1].

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[1] The resource implications of this paragraph will need to be specified.

Annex

RULES AND GUIDELINES FOR REGISTRIES

[Definitions

For the purpose of this annex:

(a) "Protocol" means the Kyoto Protocol to the United Nations Framework Convention on Climate Change, as adopted on 11 December 1997;

(b) "Party" means, unless the context otherwise indicates, a Party to the Protocol;

(c) "Party included in Annex I" means a Party included in Annex I to the Convention, as may be amended, or a Party which has made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Protocol;

(d) "Party not included in Annex I" means a Party not included in Annex I to the Convention, as may be amended, and which has not made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Protocol;

(e) "Party included in Annex B" means a Party included in Annex B to the Protocol;

(f) "Article" means an article of the Protocol, unless otherwise indicated;

(g) ["Assigned amount units" or "AAUs"] ["Parts of assigned amount" or "PAAs"] are [serialized parts of the assigned amount of a Party included in Annex B] [units calculated pursuant to Article 3, paragraphs [3, 4,] 7 and 8];

(h) "Emissions reduction units" or "ERUs" are units [issued] [transferred] pursuant to Article 6 and requirements thereunder;

(i) "Certified emissions reductions" or "CERs" are units issued pursuant to Article 12 and requirements thereunder;

(j) [AAUs][PAAs], ERUs and CERs are units each equal to one tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;

(k) ["Assigned amount" includes [AAUs][PAAs], ERUs and CERs.]]

A. National registries

1. Each Party included in Annex B shall establish and maintain a national registry to ensure the accurate accounting of the issuance of [AAUs][PAAs] and ERUs and the holding, transfer, acquisition, cancellation and retirement of [[AAUs][PAAs], ERUs and CERs] [assigned amount].

2. Each Party included in Annex B shall identify an organization as its registry administrator to maintain the Party's national registry.

3. A national registry shall be in the form of a standardized electronic database which contains, *inter alia*, common data elements relevant to the issuance [AAUs][PAAs] and ERUs and the holding, transfer, acquisition, cancellation and retirement of [[AAUs][PAAs], ERUs and CERs] [assigned amount]. The design and format of national registries shall conform to further guidelines for the implementation of decision [-/CMP.1] to be adopted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP).

4. Each [AAU][PAA], ERU and CER shall be held in only one account in one registry at a given time.

5. Any two or more Parties included in Annex B may voluntarily maintain their respective national registries in a consolidated system, provided that each national registry remains legally distinct.

6. Each Party included in Annex B shall have at least one holding account within its national registry. Where such a Party authorizes legal entities to hold [[AAUs][PAAs], ERUs or CERs] [assigned amount] under its responsibility, each such legal entity shall have an individual holding account in the Party's national registry.

7. Each Party included in Annex B shall have one dedicated retirement account within its national registry for each commitment period. [[AAUs][PAAs], ERUs and/or CERs] [Assigned amount] shall be transferred to the dedicated retirement account for the purpose of demonstrating the Party's compliance with its commitments under Article 3, paragraph 1, in accordance with modalities for the accounting of assigned amounts under Article 7, paragraph 4. [[AAUs][PAAs], ERUs and CERs] [Assigned amount] transferred to a Party's retirement account shall not be further transferred.

8. [Each Party included in Annex B shall have at least one dedicated cancellation account within its national registry for each commitment period, into which it shall transfer [[AAUs][PAAs]] [[AAUs][PAAs], ERUs and/or CERs] [assigned amount] for the purpose of cancelling [[AAUs][PAAs]] [[AAUs][PAAs], ERUs and/or CERs] [assigned amount] equivalent to net emissions pursuant to Article 3, paragraphs 3 and 4, in accordance with the modalities for the accounting of assigned amounts under Article 7, paragraph 4. [[AAUs][PAAs], ERUs and CERs] [Assigned amount] transferred to such a cancellation account shall not be further transferred and may not be used for the purpose of demonstrating a Party's compliance with its commitments under Article 3, paragraph 1.]

(Note: If sinks are eligible under the CDM, consideration may need to be given to a cancellation function in national registries or expiry dates for CERs to address issues of permanence.)

9. Each Party included in Annex B [shall] [may] have [at least one] [additional] dedicated cancellation account[s] within its national registry for each commitment period, into which that Party or, if authorized, legal entities may transfer [[AAUs][PAAs], ERUs and/or CERs] [assigned amount] for the purpose of cancelling [them] [it] so that [they][it] cannot be used in fulfilment of commitments under Article 3, paragraph 1. [[AAUs][PAAs], ERUs and CERs] [Assigned amount] transferred to such a cancellation account shall not be further transferred and may not be used for the purpose of demonstrating a Party's compliance with its commitments under Article 3, paragraph 1.

10. [Each Party included in Annex B shall have one dedicated account for its excess assigned amount within its national registry for each commitment period. Upon verification of the availability of excess [AAUs] [PAAs] and the issuance of certificates for them by the secretariat, [certified] excess [AAUs] [PAAs] shall be transferred from their account of origin into the Party's account for excess assigned amount.]

11. Each account within a national registry shall have a unique account number comprising the following elements:

(a) Party identifier: this shall identify the Party in whose national registry the account is maintained and shall use the two-letter country code defined by the International Organization for Standardization (ISO 3166);

(b) A unique number: this shall identify the account using a number unique to that account for the Party in whose national registry the account is maintained.

12. Each national registry shall provide a user-friendly, publicly accessible user interface that allows interested persons to query and view non-confidential information contained in the registry, including, *inter alia*, the information specified in the appendix below.

B. Issuance and transactions

13. Each Party included in Annex B shall, prior to the commitment period and prior to any transactions taking place for that commitment period, issue its [initial] assigned amount, established in accordance with the modalities for the accounting of assigned amounts under Article 7, paragraph 4, into its national registry as [AAUs][PAAs].

14. Each [AAU][PAA] shall have a unique serial number comprising the following elements:

(a) Commitment period: this shall identify the commitment period for which the [AAU][PAA] is issued;

(b) Party of origin: this shall identify the Party included in Annex B which issued the [AAU][PAA] into its national registry and shall use the two-letter country code defined by the International Organization for Standardization (ISO 3166);

(c) Type: this shall identify the unit as an [AAU][PAA];

(d) A unique number: this shall identify the [AAU][PAA] using a number unique to the [AAU][PAA] for the identified commitment period and Party of origin. Serial numbers shall be stored in blocks by starting and ending numbers. For single [AAUs][PAAs], the starting and ending number shall be the same.

15. [Each Party included in Annex B shall issue any additions to its assigned amount as a result of activities under Article 3, paragraphs 3 and 4, established in accordance with the modalities for the accounting of assigned amounts under Article 7, paragraph 4, into its national registry as [AAUs][PAAs]. Each Party included in Annex B shall cancel any subtractions from its assigned amount pursuant to Article 3, paragraphs 3 and 4, in accordance with the modalities for the accounting of assigned amounts under Article 7, paragraph 4, by transferring [[AAUs][PAAs]] [[AAUs][PAAs], ERUs and CERs] [assigned amount] into a cancellation account in its national registry.]

(Note: Decision 9/CP.4 and Article 3.4 use the terms "additions to" and "subtractions from" assigned amount. Such additions and subtractions are addressed in the modalities for the accounting of assigned amount under Article 7.4. Consideration may need to be given to any implications of when information on additions or subtractions to assigned amount as a result of activities under Articles 3.3 and 3.4 will be available. The text by the chairman on LULUCF reads: "the adjustment to a Party's assigned amount shall be equal to the net greenhouse gas emissions or removals ... during the period 1 January 2008 to 31 December 2012 ..." (see FCCC/SBSTA/2000/12, paragraph 21.)

16. A Party included in Annex B shall issue ERUs by converting [AAUs][PAAs] previously issued by that Party and held in its national registry. An [AAU][PAA] shall be converted into an ERU by adding a project identifier to the serial number and changing the type indicator in the serial number to indicate an ERU. Other elements of the serial number of the [AAU][PAA] shall remain unchanged. The project identifier shall identify the specific Article 6 project for which the ERUs are issued, using a number unique to the project for the Party of origin.

17. Upon such issuance, the Party shall transfer the ERUs, in accordance with these rules and guidelines, to the account or accounts of the project participants and Parties specified in their distribution agreement.

18. The national registry of the host Party shall record, and make available through a user-friendly, publicly accessible interface, the following information for all projects under Article 6, identified by the project identifier, for which the Party has issued ERUs:

(a) Project name: this shall identify the project by a unique name;

(b) Project location: this shall identify the Party and town or region in which the project is located;

(c) Years of ERU issuance: this shall identify the years in which ERUs are issued as a result of each Article 6 project;

(d) Reports: this shall [include] [identify an Internet location containing] downloadable electronic versions of [project design documents, validation reports, notifications of registration, monitoring reports, verification reports, notifications of certification and notifications of issuance of ERUs] relating to each Article 6 project.

19. A Party included in Annex B shall initiate an issuance by directing its national registry to issue [[AAUs][PAAs]] [assigned amount] into a specific account within that registry. Such issuance shall be completed when specific [[AAUs][PAAs] [assigned amount] are recorded in the specified account.

20. The transferor of [[AAUs][PAAs], ERUs and/or CERs] [assigned amount] shall initiate any transfer, including those to holding, retirement, cancellation [and excess assigned amount] accounts, by directing its national registry or, in the case of transfers of CERs from accounts of Parties not included in Annex I, the registry for Parties not included in Annex I defined by the requirements of Article 12 to transfer specified [[AAUs][PAAs], ERUs and/or CERs] [assigned amount] to a specific account within that registry or to another registry. In the case of a transfer to a holding account, the acquiring account shall inform the transferring account whether it accepts or rejects the transfer. Subject to notification by the transaction log that there are no

discrepancies pertaining to the transfer, a transfer shall be completed when the specified [[AAUs][PAAs], ERUs and/or CERs] [assigned amount] are removed from the transferring account and are recorded in the acquiring account.

21. [Parties included in Annex B operating under Article 4 to fulfil their commitments jointly under Article 3 shall effectuate allocations under Article 4 through transfers of [AAUs][PAAs] between the national registries of the Parties participating in the Article 4 agreement.]

22. National registries and the registry for Parties not included in Annex I defined under the requirements for Article 12 shall record any issuance, transfer, acquisition, cancellation and retirement of [[AAUs][PAAs], ERUs and CERs] [assigned amount] immediately upon completion of the issuance or transaction.

C. Independent transaction log

23. The secretariat shall establish and maintain an independent transaction log to ensure the validity of transactions, including the issuance, transfer, acquisition, cancellation and retirement of [[AAUs][PAAs], ERUs and CERs] [assigned amount]. The transaction log shall ensure that each [AAU][PAA], ERU and CER is held in only one account in one registry at a given time.

24. Upon the initiation of any issuance, transfer, cancellation or retirement of [[AAUs][PAAs], ERUs and/or CERs] [assigned amount], and prior to the completion of those transactions, the initiating registry shall, as part of the transaction process, send a record of the transaction being initiated to the transaction log. For each such transaction:

(a) The initiating registry shall create a unique transaction number comprising the commitment period for which the transaction is proposed; the Party identifier for the Party included in Annex B or, for transfers of CERs from Parties not included in Annex I, that Party not included in Annex I, initiating the transaction (using the two-letter country code defined by the International Organization for Standardization (ISO 3166)); and a number unique to that transaction for the commitment period and initiating Party;

(b) The initiating registry shall send the record of the proposed transaction to the transaction log and, in the case of transfers, the acquiring national registry. The record shall include the transaction number assigned by the initiating registry; the serial numbers (in the form of starting and ending numbers) of [[AAUs][PAAs], ERUs and/or CERs] [assigned amount] being issued, transferred, cancelled, or retired; and the relevant account numbers;

(c) The transaction log shall, upon receipt of the record from the initiating registry, conduct an automated check to ensure that there are no discrepancies with regard to units previously retired or cancelled; duplicated units; units improperly issued; the eligibility of Parties involved in the transaction to participate in the mechanisms; the eligibility of legal entities involved in the transaction to hold [[AAUs][PAAs], ERUs or CERs] [assigned amount]; [and infringements on the commitment period reserve of the Party established under the modalities, rules and guidelines for emissions trading]. Upon completion of the automated check, the transaction log shall notify the initiating and, in the case of transfers, the acquiring Party's registry of the results of the automated check;

(d) If a discrepancy is notified by the transaction log, the initiating registry shall terminate the transaction;

(e) If no discrepancy is notified by the transaction log, the initiating registry or, in the case of transfers, the acquiring Party's registry shall, upon completion or termination of the transaction, send the record and a notification of completion or termination of the transaction to the transaction log. In the case of transfers, the acquiring Party's registry shall also send this record and notification to the initiating registry.

25. The transaction log shall record all issuance, transfers, acquisitions, cancellation and retirement of [[AAUs][PAAs], ERUs and CERs] [assigned amount] to facilitate its automated checks and the review under Article 8. This information shall include the date and time of each transaction and identify the transaction as being one of the following:

(a) Issuance of [initial] assigned amount as [AAUs][PAAs] into a national registry;

(b) [Issuance of any additions to the Party's assigned amount as a result of activities under Article 3, paragraphs 3 and 4, as [AAUs][PAAs] into a national registry];

(c) Issuance of ERUs;

(d) Issuance of CERs in accordance the requirements under Article 12;

(e) [A first transfer of [AAUs][PAAs] from an issuing national registry to another national registry;]

(f) Any other transfer of [[AAUs][PAAs], ERUs [and CERs]] [assigned amount].

(Note: Subject to decisions in relation to the share of proceeds, the independent transaction log could also check to ensure that, as part of the issuance procedure, the appropriate number of CERs is transferred to accounts used for holding and managing the share of proceeds. A equivalent role could also be played by the transaction log in the context of any share of proceeds adopted for Articles 6 and 17.)

Appendix

PUBLICLY ACCESSIBLE INFORMATION TO BE CONTAINED IN NATIONAL REGISTRIES

1. Publicly accessible information for each account, by account number, shall include:

(a) Account name: this shall identify the holder of the account;

(b) Account type: this shall identify the type of account as being one of the following:

(i) Holding account;

(ii) Retirement account;

(iii) [Cancellation account for the purpose of cancelling [[AAUs][PAAs]] [[AAUs][PAAs], ERUs and/or CERs] [assigned amount] equivalent to net emissions pursuant to Article 3, paragraphs 3 and 4;]

(iv) Cancellation account for the purpose of cancelling [[AAUs][PAAs], ERUs and CERs] [assigned amount] so that [they] [it] cannot be used in fulfilment of a Party's commitments under Article 3, paragraph 1;

(vi) [Account for a Party's excess assigned amount;]

(c) Commitment period: this shall identify the commitment period with which retirement, cancellation [and excess assigned amount] accounts are associated. Holding accounts do not need associated commitment periods;

(d) Representative identifier: this shall identify the representative of the account holder, using the Party identifier (the two-letter country code defined by the International Organization for Standardization (ISO 3166)) and a number unique to that representative within the Party's registry;

(e) Representative name and contact information: this shall identify the full name, mailing address, telephone number, facsimile number and email address of the representative of the account holder.

2. Publicly accessible information for each calendar year in relation to [[AAUs][PAAs], ERUs and CERs] [assigned amount] shall include, by serial number:

(a) [Initial] assigned amount issued as [AAUs][PAAs] into national registries;

(b) [Any additions to the Party's assigned amount as a result of activities under Article 3, paragraphs 3 and 4, issued as [AAUs][PAAs] into national registries;]

(c) [[[AAUs][PAAs], ERUs and CERs] [Assigned amount] transferred to cancellation accounts for the purpose of cancelling [[AAUs][PAAs]] [[AAUs][PAAs], ERUs and/or CERs] [assigned amount] equivalent to net emissions defined pursuant to Article 3, paragraphs 3 and 4;]

(d) ERUs issued into national registries;

(e) First acquisitions of newly issued ERUs;

(f) Issuance of CERs in accordance the requirements under Article 12;

(g) [[AAUs][PAAs], ERUs, [and CERs]] [Assigned amount] transferred and the identity of the acquiring accounts and national registries;

(h) [[AAUs][PAAs], ERUs and CERs] [Assigned amount] acquired and the identity of the transferring accounts and registries;

(i) [First transfers of [AAUs][PAAs] from an issuing national registry to another national registry;]

(j) [[AAUs][PAAs], ERUs and CERs] [Assigned amount] retired for the purpose of demonstrating a Party's compliance with its commitments under Article 3, paragraph 1;

(k) [[AAUs][PAAs], ERUs and CERs] [Assigned amount] transferred to cancellation accounts for the purpose of cancelling [them] [it] so that [they][it] cannot be used in fulfilment of a Party's commitments under Article 3, paragraph 1;

(l) Current holdings of [[AAUs][PAAs], ERUs and CERs] [assigned amount] in each account;

(m) [The prices at which [AAUs] [PAAs] have been traded.]

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